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C O U N C I L - C O M M U N I C A T I O N

TO: THE CITY COUNCIL

COUNCIL MEETING DATE: MARCH 21, 1990

FROM: THE CITY MANAGER'S OFFICE

SUBJECT: REQUIRED EXECUTION OF PROJECT AGREEMENT NO. 3 IN ACCORDANCE WITH
ATTACHED RESOLUTION TO PERMIT PARTICIPATION IN CONSTRUCTION OF THE
CALIFORNIA-OREGON TRANSMISSION PROJECT.

RECOMMENDED ACTION: Approval and authorization of City Manger to execute: (i) an execution copy of Project Agreement No. 3 that is prepared in the manner provided for in TANC Resolution No. 90-18, a copy of which is attached hereto and incorporated into this resolution by this reference; and (ii) such amendments and supplements to Project Agreement No. 3 as either such officer determines with the advice of counsel to be necessary or appropriate from time to time hereafter to cure any ambiguity or eliminate superfluous provisions or to correct or supplement any defective provision in Project Agreement No. 3.

BACKGROUND INFORMATION REGARDING THE CALIFORNIA-OREGON TRANSMISSION PROJECT AND AGREEMENT NO. 3 TO PROCEED WITH CONSTRUCTION:

- The California-Oregon Transmission Project or Third AC Intertie (Project) is a proposed 500-kv AC transmission line from Southern Oregon to Central California.
- Congress has named the California-Oregon Transmission Project "The Harold T. (Bizz) Johnson California-Pacific Northwest Intertie Transmission Line."
- The Transmission Agency of Northern California (TANC) and the Western Area Power Administration (Western) were the original creators of the Project, which was proposed in 1983.
 - During 1984, other California utilities requested large shares of the Project.
 - The basic plan for the California-Oregon Transmission Project, which includes nearly all utilities in California, has been approved by Congress. (P.L. 98-360 and P.L. 99-88)
 - TANC is the Project Manager and is responsible for the expeditious completion of the Project.
 - TANC issued a \$26.8 million financing to initiate design/analysis pursuant to an initial Project Agreement in December 1985.
 - TANC refinanced that \$26.8 million into an expanded financing amounting to \$60 million in May 1989 to cover all environmental costs and land acquisition.
 - TANC is moving forward to rund construction and operation of the Project pursuant to the Project Agreement No. 3, attached hereto.

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- This transmission project is expected to have a service life far exceeding 50 years in duration.
 - TANC financing pursuant to Project Agreement No. 3 covers construction and refinancing the \$60 million financed to date (used for design, environmental and land acquisitions).
 - The TANC financing will amount to \$292 million with a 30-year financing period.
 - Lodi's share in the TANC financing is 1.686% or approximately \$377,000 per year.
 - Participation percentages are not fixed until the participating investor-owned utilities have obtained certificate of convenience and necessity from the California Public Utility Commission.
 - Lodi has indicated a need to double our participation should the opportunity present itself; however, the possibility is remote.
 - Our 11.4 megawatt participation will cover less than 4 years of load growth for the City of Lodi.
 - Expeditious completion (by 1993) of COTP construction will enable the Members of TANC to begin to utilize new power markets and bulk power suppliers presently not available to most of the TANC Members.



Henry J. Rice
Electric Utility Director

Attach.

RESOLUTION NO. 90-18

**RESOLUTION OF THE
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
APPROVING AND AUTHORIZING
EXECUTION OF PROJECT AGREEMENT NO. 3
FOR THE
CALIFORNIA-OREGON TRANSMISSION PROJECT**

WHEREAS, the Transmission Agency of Northern California (TANC), a joint exercise of powers agency established pursuant to the laws of the State of California, has been actively involved in the planning and development of the California-Oregon Transmission Project (Project); and

WHEREAS, the Members of TANC desire to authorize TANC to undertake additional responsibilities as a Participant in the Project including, but not limited to, activities pertaining to construction and operation of the Project; and

WHEREAS, the Members of TANC have developed a Project Agreement No. 3 (Agreement) to set forth the Members' rights and obligations with regard to the construction and operation of the Project; and

WHEREAS, the Participation Percentages set forth in Appendix C of the Agreement are based upon all of the Members of TANC specified in that Appendix electing to sign the Agreement; and

WHEREAS, in completing the Agreement the Members have also developed a methodology to share transmission services between Midway and Tesla Substations;

NOW, THEREFORE, BE IT RESOLVED by the Commission of the Transmission Agency of Northern California, as follows:

Section 1. The Agreement, in substantially the form presented to this meeting and made a part hereof as though set forth in full herein, is hereby approved. The Chairman, with the advice of TANC General Counsel, is hereby authorized to execute and deliver the Agreement in the form presented to this meeting with such changes,

insertions and omissions as may be approved by the Chairman, said execution being conclusive evidence of such approval.

Section 2. The Chairman, the Vice Chairmen, each Assistant Treasurer, and the Treasurer of the Agency, the Secretary and any other proper officer of TANC, acting singly, and each of them, hereby are authorized to execute and deliver any and all documents and instruments and to do, or cause to be done, any and all acts and things necessary or proper for carrying out the transactions contemplated by the Agreement and this resolution.

Section 3. In the event that the governing body of a Member listed in Appendix C of the Agreement fails to adopt a resolution in substantially the form of the Suggested Resolution for Member Authorizing Execution of Project Agreement No. 3 (Member Resolution) appended hereto before April 15, 1990, such Member shall be considered to have elected to relinquish any right or entitlement to further participate in the Project.

Section 4. On or before April 20, 1990, execution copies of the Agreement shall be transmitted to each Member that adopted a Member Resolution prior to April 15, 1990 (remaining Member). Such execution copies shall contain no reference to any other Members and shall establish the Participation Percentage of each remaining Member at the ratio between the remaining Member's Participation Percentage set forth in Appendix C of the Agreement presented at this meeting and the aggregate of the Participation Percentages of all of the remaining Members set forth in that Appendix C, expressed as a percentage; provided that the Participation Percentage so established for any Member shall not exceed the Member's Participation Percentage set forth in Appendix C of the Agreement presented at this meeting by more than 5 percent without the consent of the Member.

Section 5. The Members and TANC agree to share the Tesla to Midway transmission service provided under the Memorandum of Understanding for the Project according to the amounts described in Attachment 2 hereto provided that the Cities of Alameda, Healdsburg, Lodi, Lompoc, Palo Alto, Roseville, and Ukiah, and the

Plumas-Sierra Rural Electric Cooperative shall have a collective option to purchase 5 MW of such service by the assumption of the rights and obligations from the collective rights and obligations, allocated according to their participation percentages in M-S-R Public Power Agency, of the Cities of Redding and Santa Clara and the Modesto Irrigation District, provided that such option must be exercised before Tesla-Midway service begins, and that service provided under such option will be provided for the term of the Tesla to Midway transmission service.

Section 6. This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this 21st day of February, 1990, on a motion by Mr. Hahn, seconded by Mr. Weisel.

RESOLUTION NO. 90-47
=====

A RESOLUTION OF THE LODI CITY COUNCIL
APPROVING AND AUTHORIZING EXECUTION OF PROJECT AGREEMENT NO. 3
TO PERMIT PARTICIPATION IN CONSTRUCTION OF THE
CALIFORNIA-OREGON TRANSMISSION PROJECT
=====

WHEREAS, the California-Oregon Transmission Project or Third AC Intertie (Project) is a proposed 500-kv AC transmission line from Southern Oregon to Central California; and

WHEREAS, the Lodi City Council hereby approves the City's participation in construction of the California-Oregon Transmission Project;

NOW, THEREFORE, BE IT RESOLVED BY THE LODI CITY COUNCIL that the City Manager is hereby authorized to execute Project Agreement No. 3; and

BE IT FURTHER RESOLVED, that the City Manager is authorized to execute such amendments and supplements to Project Agreement No. 3 as determined to be necessary or appropriate from time to time.

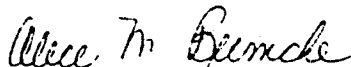
Dated: March 21, 1990
=====

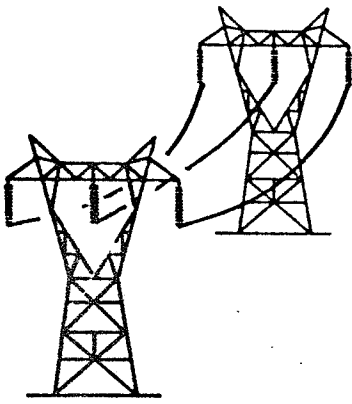
I hereby certify that Resolution No. 90-47 was passed and adopted by the Lodi City Council in a regular meeting held March 21, 1990 by the following vote:

Ayes: Council Members - Hinchman, Olson, Pinkerton, Reid and Snider (Mayor)

Noes: Council Members - None

Absent: Council Members - None


Alice M. Reimche
City Clerk



TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

P.O. Box 661030, Sacramento, CA 95866 (916) 924-1196

MEMORANDUM

TO: Distribution List

March 7, 1990

FROM: Maury Kruth *MK/plp*

SUBJECT: BRIEFING MATERIALS FOR TANC PROJECT AGREEMENT NO. 3

Enclosed please find a package of informational material for your use in presenting TANC Project Agreement No. 3 to your governing body. The material is unbound to allow you to use the portions relevant to your individual needs. If you would like a bound version, please call Steve McClary at 916/924-1534.

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A Public Entity whose Members include:

Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Modesto Irrigation District, Palo Alto,
Redding, Roseville, Sacramento Municipal Utility District, Santa Clara,
Turlock Irrigation District, Ukiah

**BRIEFING BOOK
FOR THE
TRANSMISSION AGENCY
OF NORTHERN CALIFORNIA
1990 FINANCING**

I. INTRODUCTION

- This Briefing Book has been prepared by the Transmission Agency of Northern California (TANC) to provide the Members of TANC with key information on the California-Oregon Transmission Project (COTP) and the 1990 TANC financing.
- The COTP will provide the public power member utilities of TANC with a new path to a diverse array of resources in the Pacific Northwest. This is a major step in safeguarding the independence of the TANC Members and their ability to provide reliable, low-cost power to their ratepayer-owners.
- As COTP Project Manager, TANC has provided the leadership necessary to move ahead with a multi-Participant project. To maintain progress toward completion of the COTP, TANC is proposing to start construction in the summer of 1990, with energization in late 1992 or early 1993.

II. THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

- The Transmission Agency of Northern California (TANC) is a California Joint Powers Agency that was formed in 1984 by fifteen publicly owned utilities and districts that are the Members of TANC.
- TANC was formed to assist the Members in developing, acquiring, and financing electric transmission projects that would assist the Members in providing economical power to their ratepayers.
- Each Member appoints a Commissioner (and Alternates) to the TANC Commission, which governs TANC.

**MEMBERS OF THE
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
AND PRESENT SHARES THROUGH TANC IN THE COTP**

<u>MEMBER</u>	<u>PERCENTAGE</u>	<u>MEGAWATTS</u> ¹
Alameda	1.713	11.59
Biggs	0.000	0.00
Gridley	0.000	0.00
Healdsburg	0.357	2.42
Lodi	1.686	11.41
Lompoc	0.408	2.76
MID	19.200	129.92
Palo Alto	4.254	28.79
Plumas-Sierra	0.358	2.42
Redding	6.400	43.31
Roseville	1.455	9.85
Santa Clara	20.200	136.69
SMUD	30.600	207.06
TID	12.900	87.29
Ukiah	<u>0.469</u>	<u>3.17</u>
	100.000	676.67 MW

¹ Assuming 1,600 MW rating for the COTP and existing COTP Participants.

III. THE CALIFORNIA-OREGON TRANSMISSION PROJECT

- Congress has named the California-Oregon Transmission Project "The Harold T. (Bizz) Johnson California-Pacific Northwest Intertie Transmission Line."
- The California-Oregon Transmission Project or Third AC Intertie (Project) is a proposed 500-kV AC transmission line from Southern Oregon to Central California.
- The Transmission Agency of Northern California (TANC) and the Western Area Power Administration (Western) were the original creators of the Project, which was proposed in 1983.
 - During 1984, other California utilities requested large shares of the Project.
 - The basic plan for the California-Oregon Transmission Project, which includes nearly all utilities in California, has been approved by Congress. (P.L. 98-360 and P.L. 99-88)
 - TANC is the Project Manager and is responsible for the expeditious completion of the Project.
 - TANC is moving forward to complete the Project as quickly as possible.

**PARTICIPANTS
IN THE
CALIFORNIA-OREGON TRANSMISSION PROJECT**

<u>PARTICIPANT</u>	<u>PERCENT ENTITLEMENT</u>	<u>MEGAWATTS</u> ¹	<u>COST SHARING PERCENTAGE</u>
Transmission Agency of Northern California	42.2916	676.7	45.1110
Southern Cities ²	7.5497	120.7	8.0530
Pacific Gas and Electric Company	20.3918	326.3	21.7513
Southern California Edison Company	17.5370	280.6	18.7061
San Diego Gas and Electric Company	2.8549	45.7	3.0452
Western Area Power Administration	6.2500	100.0	0.0000
50 MW Allottees ³	3.1250	50.0	3.3334
TOTAL	100.0000	1,600.0	100.0000

¹ Assuming 1600 MW rating for the COTP.

² Anaheim, Azusa, Banning, Colton, Riverside, and Vernon.

³ Carmichael Water District, El Dorado Hills Community Services District, San Juan Suburban Water District, Shasta Dam Area Public Utility District, Southern San Joaquin Valley Power Authority, and Trinity County Public Utility District.

**IV. HISTORY OF THE CALIFORNIA-OREGON TRANSMISSION PROJECT
AND THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA**

- 1982 - The Members of what is now the Transmission Agency of Northern California were trying to find transmission alternatives to the Pacific Northwest. Yet another try to build a new transmission line with the Pacific Gas and Electric Company (PG&E) had failed.
- 1983 - The concept for the California-Oregon Transmission Project was identified. The primary difference between this and previous proposals was to use the upgrade concept for a Western Area Power Administration (Western) 230-kV double circuit line between Redding and Tracy, as opposed to a new line in that area, to minimize costs and environmental impacts.
- 1984 - Western obtained legislation (with strong TANC support) approving their participation in COTP. The legislation (P.L. 98-360) also required that all California utilities be given the opportunity to participate. The investor-owned utilities (IOUs) demanded 80 percent of COTP capacity, even though the public had created the Project. TANC was formed and the Memorandum of Understanding (MOU) negotiated.
- 1985 - The MOU was approved by Congress in P.L. 99-88. It provided for TANC to be the Project Manager and divided up the COTP. TANC retained the largest share of line capacity (677 MW) in the COTP.

The COTP is Developed

1985

- The Interim Cost Sharing Agreement was signed by all Participants, including the IOUs. TANC continued work on COTP while difficult negotiations for the Project Development Agreement (PDA) continued.
- In September 1985, the PDA was completed. The PDA specified the duties of the Project Manager and provided for funds for environmental, engineering, and pre-construction work. The PDA gave the IOUs 20 months to obtain California Public Utilities Commission (CPUC) approval after the Environmental Impact Statement/Environmental Impact Report (EIS/EIR) was completed - - no one thought this was a problem that would have to be faced.

1986-1988

- Environmental, engineering, and route selection work was performed under TANC direction. Extensive public involvement took place as the route was defined. Engineering design was performed by Sargent & Lundy under TANC direction.
- In December 1985, Western successfully tested the upgrade tower design with an actual 230-kV Central Valley Project tower.
- A massive EIS/EIR for the 340-mile COTP was successfully completed. The report was certified by TANC in January 1988 and by Western in May 1988. The environmental studies have not been challenged.

- Engineering, planning, and design work have been successfully completed. The Plan of Service was completed in March 1987, and tower and conductor design recommendations were completed in November 1988.
- TANC has met the COTP development schedule and budget requirements as described in the PDA.

1989

- TANC proceeded with acquisition of right of way for the northern section of the COTP. By February 1990, TANC has obtained over 90 percent of the necessary right of way.
- During 1989, TANC and Western provided funds for continued development and land acquisition while the investor-owned utility Participants pursued regulatory approval from the California Public Utility Commission.
- TANC successfully tested the tower design for the new 500-kV line segments in February 1989.
- An interim TANC financing of \$60 million was undertaken in May 1989 to refinance the 1985 Revenue Anticipation Notes and to provide the initial funds for construction, land acquisition, and related activities.
- As of February 1990, TANC has rights of way and permits for approximately 95 percent of the right of way required for the northern segment of the Project.

Current Status

- TANC has carried out its duties as Project Manager, with input from all interested parties, in a timely, cost-effective manner.
- TANC and Western will proceed with construction, starting in Spring 1990.
- The IOUs will refile applications for Certificates of Public Convenience and Necessity (CPCN) in April or May 1990 and hope to receive their CPCNs by the end of 1990.
- The IOUs' 20-month time period established by the PDA expired in December 1989.
- Congressional support has been maintained, including support in the Pacific Northwest.
- TANC Project Agreement No. 3 was approved in February 1990. This agreement provides for completion of the COTP by TANC and Western, if necessary.

V. TANC PROJECT AGREEMENT NO. 3

- TANC Project Agreement No. 3 (PA3) provides for TANC to complete the California-Oregon Transmission Project with the TANC Members committed to up to 1500 MW if necessary. (Western receives 100 MW at no cost for the rights of way.)
- PA3 also provides minimum and maximum megawatt obligations to each Member of TANC (Appendix C to PA3) and further specifies the marketing of excess capacity on a layoff basis, if requested by the Members.
- PA3 contains standard financing covenants and pledges. IN addition, revenues from layoffs are also pledged.
- TANC Member approvals of PA3 are ongoing and should be completed in early April 1990. Sixty-day ordinances are not required.

APPENDIX C

Participation Percentages

	(A) Participation Percentage	(B) Participation Percentage	(C) Minimum MW Share	(D) Maximum MW Share	(E) Desired MW Amount
	1/	2/	3/	4/	5/
City of Alameda	1.713	1.333	11.59	20.00	12.00
City of Healdsburg	0.357	0.267	2.42	4.00	4.00
City of Lodi	1.686	1.890	11.41	28.35	22.82
City of Lompoc	0.408	0.184	2.76	2.76	2.76
Modesto Irrigation District	19.200	21.120	129.92	316.77	255.00
City of Palo Alto	4.254	4.000	28.79	60.00	28.79
Plumas-Sierra Rural Electric Cooperative	0.358	0.161	2.42	2.42	2.42
City of Redding	6.400	8.281	43.31	124.22	100.00
City of Roseville	1.455	2.295	9.85	34.43	27.64
Sacramento Municipal Utility District	30.600	27.133	207.05	407.00	407.00
City of Santa Clara	20.200	20.703	136.69	310.55	250.00
Turlock Irrigation District	12.900	12.422	87.29	186.33	150.00
City of Ukiah	0.469	0.211	3.17	3.17	3.17
	100.000	100.000	676.67	1500.00	1265.60

- 1/ If TANC's megawatt entitlement to Transfer Capability in the Project is less than sixty-five percent (65%) of the Transfer Capability allocated to the non-Federal Participants, then these percentages shall govern.
- 2/ If TANC's megawatt entitlement to Transfer Capability in the Project is sixty-five percent (65%) or greater of the Transfer Capability allocated to the non-Federal Participants, then these percentages shall govern.
- 3/ The numbers in this column represent the minimum amount of Transfer Capability for which a Member is obligated pursuant to this Agreement based on a 1600 MW Project and will be adjusted on a pro rata basis to reflect the actual Rated Project Transfer Capability as that term is defined in the Intertie Agreements.
- 4/ The numbers in this column represent the maximum amount of Transfer Capability to which a Member is obligated pursuant to this Agreement based on a 1600 MW Project and will be adjusted on a pro rata basis to reflect the actual Rated Project Transfer Capability as that term is defined in the Intertie Agreements.
- 5/ The numbers in this column represent the amounts of Transfer Capability which Members desire at this level of TANC's entitlement to Transfer Capability as a Participant under the Intertie Agreements in the event that the investor-owned utilities are no longer Participants in the Project.

VI. THE ECONOMICS OF THE COTP

- The COTP will allow the TANC Members to reach new markets with diverse resources and system peaks that are seasonally different from California's peak load periods. This transmission provides a path to the outside world and can ensure competitive power alternatives.
- New transmission and new California markets can be expected to stimulate development of generation resources in the Northwest and Canada.
- A variety of power transactions continue to be available with the Pacific Northwest and other utilities, including:
 - Seasonal exchanges
 - Firm power purchases and sales
 - Emergency power
 - Economy energy
- The asking prices for these transactions are reasonable. Bonneville Power Administration (BPA), for example, is proposing rates well below typical PG&E rates for similar transactions. Several TANC Members have been making favorable transactions on their existing (but very limited) Intertie rights.
- Seasonal exchanges will remain attractive even when (or if) the Northwest's firm energy surpluses become fully committed.
- Other extra-regional entities who are likely future players include: BC Hydro, Montana Power, Basin Electric, etc.

- Project construction cost is estimated at \$405 million for 1600 MW, excluding interest during construction and associated financing costs. This compares very favorably to the other alternatives available to municipal utilities.
- TANC Member costs per kilowatt of line capacity should be less than \$3 per kW/month; the relative debt service risks for the Members are very reasonable. A transmission line such as COTP is a long-term infrastructure investment, opening many alternatives to potential buyers and sellers and it is also probably a once in twenty or thirty years opportunity.
- The COTP is an attractive investment, especially if higher pricing of transmission is implemented by PG&E. SMUD's existing 200 MW Intertie entitlement is also extended if the COTP is completed.

CALIFORNIA - OREGON TRANSMISSION PROJECT

PROJECT COST SUMMARY BY TIME PERIOD AND MAJOR WORK CATEGORY DOLLARS IN THOUSANDS

11/15/89

MAJOR WORK CATEGORY	INTERIM COST SHARING AGREEMENT	PROJECT DEVELOPMENT PERIOD					INTERIM PERIOD LEVEL II **	INTERIM LEVEL I **	PROJECT CONSTRUCTION PERIOD				PROJECT TOTAL
		1985	1986	1987	1988	Jan-Apr 1989			1990*	1991*	1992*	1993*	
ENVIRONMENTAL STUDIES	\$703	\$1,171	\$2,122	\$1,514	\$312	\$13	\$104	\$0	\$1,445	\$339	\$1,508	\$601	\$10,432
SYSTEM STUDIES	\$0	\$715	\$1,148	\$702	\$603	\$25	\$29	\$0	\$380	\$398	\$416	\$0	\$4,436
LAND SERVICES	\$0	\$102	\$630	\$884	\$971	\$336	\$431	\$7,724	\$8,675	\$816	\$48	\$0	\$20,637
ARCHITECT/ENGINEER SERVICES	\$0	\$1,803	\$1,699	\$2,755	\$2,995	\$281	\$447	\$30	\$2,455	\$1,069	\$219	\$42	\$15,466
CONSTRUCTION ACTIVITIES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$30,943	\$155,627	\$103,501	\$537	\$290,609
PROJECT MANAGEMENT ACTIVITIES	\$700	\$621	\$2,076	\$1,993	\$1,441	\$341	\$403	\$0	\$2,035	\$2,093	\$2,186	\$895	\$14,978
SUBTOTAL	\$1,495	\$4,413	\$7,605	\$7,847	\$6,121	\$896	\$1,616	\$7,754	\$46,133	\$180,546	\$107,826	\$2,078	\$334,586
CONTINGENCIES & SPECIAL ALLOWANCES													
TOTAL													
PROJECT TOTAL*													\$407,027

* INCLUDES ESCALATION, DOES NOT INCLUDE IDC/APUDC.

SEE SECTION VI, COST ESTIMATE.

** COSTS CURRENTLY BEING FUNDED BY TANC AND WESTERN

VII. COTP QUESTIONS

In considering the final financing for the COTP, at least ten tough questions have been raised by the TANC Members regarding the COTP and in particular the status of negotiations and agreements with PG&E. In this section, these questions are posed along with answers that are believed to be the best available as of March 1990. Negotiations are presently ongoing and it is quite possible that the exact situation on certain agreements and arrangements will change over time.

Question No. 1: "Will there be any power available to us from the Pacific Northwest when the COTP is completed?"

Answer: TANC has been established to build the COTP (and perhaps other future projects) but it is not involved in securing the power purchases for the Members of TANC. Nevertheless, TANC has followed developments in the Pacific Northwest power markets. At present, the Bonneville Power Administration and others in the Northwest estimate that BPA's firm energy surplus (but not capacity) will have been fully utilized by 1993. What this means is that sales of firm capacity and seasonal exchanges will continue to be available, and in addition, Canadian utilities (such as BC Hydro) and others in Wyoming and Montana are also likely to be in the market for energy sales to California. In short, power will be available but the arrangements and the utilities with whom transactions occur are likely to change as the market conditions change.

The Pacific Northwest was and will be a winter peaking region, while California peaks in the summer. Therefore, the fundamental reasons for the COTP to be a sound investment are unchanged: by improving the transmission infrastructure between the two regions, it will open new alternatives to buyers and sellers in both California and the Pacific Northwest.

Question No. 2: "Will PG&E connect the COTP to their system if they are not a COTP Participant?"

Answer: The Congressionally-approved MOU provides for an interconnected COTP and PG&E has stated its willingness to interconnect with the COTP, and voted for Plans at the Management Committee level, even if PG&E is not a Participant, subject to agreements that are being negotiated at present. PG&E will receive benefits from the COTP (such as improved transmission system reliability) even if it does not participate in the COTP. TANC also believes there are remedies to obtain services and interconnection, if such remedies should become necessary.

It should be noted that this situation is quite similar to those experienced by public power entities in Northern and Central California for new projects and that when these entities proceeded, despite their difficulties, they were successful in ultimately completing their projects and their final agreements with PG&E.

Question No. 3: "Won't this Project be too expensive?"

Answer: No. While the COTP in total is estimated to cost \$405 million for 1600 MW, the cost to each Member, assuming a long term joint action agency financing, has been estimated to be quite reasonable (under \$3 per kilowatt month).

Question No. 4: "What if TANC commits to pay for the Project and it doesn't work for some reason?"

Answer: In the absolute worst case, the TANC Members through TANC Project Agreement No. 3 will be committed to pay for their respective shares of the annual debt service if the Project does not work. The impact would vary for each Member depending upon its share in TANC and the COTP. In general, it appears that the

resulting financial impact would not be unmanageable or lead to noncompetitive rates.

TANC (and its numerous utility partners) are firmly convinced that the Project will in fact "work." 500 kV transmission lines, such as the COTP, are a proven technology that has been used throughout the U.S. since the 1960's. The existing AC Interties are 500 kV transmission lines and the COTP has been designed to operate in parallel with them.

Question No. 5: "Can PG&E stop the COTP?"

Answer: The TANC Executive Committee is confident that the COTP will be built with or without PG&E's participation. The benefits of COTP construction, the strong support of Congress, and the interests of all the Participants (including PG&E) support that judgment.

Question No. 6: "Who will use any excess COTP capacity that might be obtained through TANC in this Project?"

Answer: The TANC agreements have been structured to facilitate the internal and external layoffs of any excess capacity that a Member might have. Based on requests from the Members, the amount of excess capacity does not seem likely to be large. TANC has explored the possibility of layoffs to other Participants such as the Western Area Power Administration and certain of these layoffs appear to be potentially attractive. On a real time basis, if layoffs are not made, then unused capacity would be treated on the same basis as the existing Intertie.

Question No. 7: "How much will this Project cost?"

Answer: On a monthly basis, assuming a joint action agency financing through TANC, the COTP should cost less than \$3 per kilowatt month. Transmission lines typically have very long lifetimes -- over 50 years. The Project Participation Agreement is a 50-year agreement, which expires only upon agreement by all the Participants. Therefore, after the TANC debt is paid off (30 years), this cost would decrease to the operation and maintenance cost (a small amount per kilowatt of line capacity).

**VIII. THE PLAN FOR COMPLETING THE CALIFORNIA-OREGON
TRANSMISSION PROJECT**

The TANC Executive Committee has recommended the following actions by the TANC Members:

- Approval of TANC Project Agreement No. 3 (which is in substantially final form) to enable a TANC financing that would complete the COTP, without other Participants such as PG&E, if necessary, and
- Expeditionary completion (by 1993) of COTP construction to enable the Members of TANC to begin to utilize new power markets and bulk power suppliers presently not available to most of the TANC Members, and
- Continued negotiations with the other COTP Participants, including PG&E, to bring the COTP to completion consistent with the original MOU as has been directed by the United States Congress, to the extent possible.

To continue moving forward with COTP construction, the TANC Commission has outlined the following strategy:

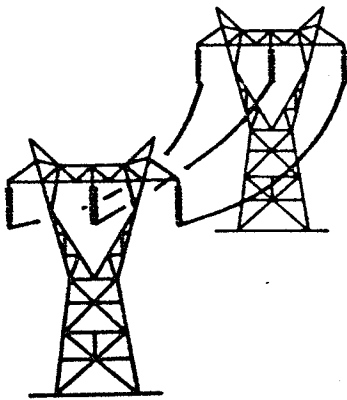
- Proceed with negotiation of a Project Participation Agreement (PPA), to be executed by all or most of the current Participants who want to sign the PPA.
- Proceed with COTP construction in 1990, with TANC paying the IOUs' share of costs while the IOUs seek final regulatory approvals.
- TANC will issue two types of financing - tax-exempt to fund TANC's share, taxable to fund the IOUs' share during 1990. The IOUs would refund the taxable

financing, if they have received their CPCNs, or TANC can undertake an appropriate refinancing.

- If other Participants drop out, the Federal Allottees, the California Department of Water Resources, Western, and TANC will step up for the unused capacity.

IX. FINANCING PLAN AND SCHEDULE

- Member final approvals of TANC PA3 should be completed in early April 1990.
- A tax-exempt bond issue for TANC's "base" COTP entitlement of 677 MW would be completed in May 1990 (Approx. \$290 million, 30-year bonds).
- A commercial paper program would be undertaken beginning June 1990 with the issues sized to match TANC's cash flow requirements (Approx. \$100 million through early 1991).
- Upon completion of the CPUC Certificate process for the California IOUs, TANC would either defease the commercial paper (if the IOUs are in COTP) or undertake subsequent, appropriate financings (PA3 enables these without further Member approvals).



TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

P.O. Box 661030, Sacramento, CA 95866 (916) 924-1196

MEMORANDUM

TO: TANC Members

February 23, 1990

FROM: Joseph B. Marcotte Jr.
Chairman

SUBJECT: APPROVAL OF TANC PROJECT AGREEMENT NO. 3

I am pleased to report that on February 21, 1990, the Commission of the Transmission Agency of Northern California (TANC) approved TANC Project Agreement No. 3, which will provide for financing, construction, and operation of the California-Oregon Transmission Project (Project). In adopting TANC Project Agreement No. 3, the Commission also established a schedule for the Members of TANC to elect to proceed with the Project. The schedule calls for each TANC Member participating in the Project to approve Project Agreement No. 3 before April 15, 1990, as the final election date to remain in the Project.

Enclosed you will find:

- a suggested form of resolution for each City or District to use in approving Project Agreement No. 3;
- a copy of the TANC Resolution approving Project Agreement No. 3; and
- Project Agreement No. 3 as approved by the Commission of TANC.

A Public Entity whose Members include:
Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Modesto Irrigation District, Palo Alto,
Redding, Roseville, Sacramento Municipal Utility District, Santa Clara,
Turlock Irrigation District, Ukiah

TANC Members
February 23, 1990
Page 2

TANC staff are preparing briefing materials and will be available to provide assistance as needed to present Project Agreement No. 3 to your staff and governing board members. I would like to emphasize the importance of moving forward with your local approvals in a timely fashion as TANC moves forward with financing arrangements for the Project.

If you have any questions or comments regarding the process for approving Project Agreement No. 3, please feel free to contact Lloyd Harvego or Maury Kruth at (916) 924-1534 or Dennis De Cuir (our General Counsel) at (916) 444-3900.

RESOLUTION NO. 90-18

**RESOLUTION OF THE
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
APPROVING AND AUTHORIZING
EXECUTION OF PROJECT AGREEMENT NO. 3
FOR THE
CALIFORNIA-OREGON TRANSMISSION PROJECT**

WHEREAS, the Transmission Agency of Northern California (TANC), a joint exercise of powers agency established pursuant to the laws of the State of California, has been actively involved in the planning and development of the California-Oregon Transmission Project (Project); and

WHEREAS, the Members of TANC desire to authorize TANC to undertake additional responsibilities as a Participant in the Project including, but not limited to, activities pertaining to construction and operation of the Project; and

WHEREAS, the Members of TANC have developed a Project Agreement No. 3 (Agreement) to set forth the Members' rights and obligations with regard to the construction and operation of the Project; and

WHEREAS, the Participation Percentages set forth in Appendix C of the Agreement are based upon all of the Members of TANC specified in that Appendix electing to sign the Agreement; and

WHEREAS, in completing the Agreement the Members have also developed a methodology to share transmission services between Midway and Tesla Substations;

NOW, THEREFORE, BE IT RESOLVED by the Commission of the Transmission Agency of Northern California, as follows:

Section 1. The Agreement, in substantially the form presented to this meeting and made a part hereof as though set forth in full herein, is hereby approved. The Chairman, with the advice of TANC General Counsel, is hereby authorized to execute and deliver the Agreement in the form presented to this meeting with such changes,

insertions and omissions as may be approved by the Chairman, said execution being conclusive evidence of such approval.

Section 2. The Chairman, the Vice Chairmen, each Assistant Treasurer, and the Treasurer of the Agency, the Secretary and any other proper officer of TANC, acting singly, and each of them, hereby are authorized to execute and deliver any and all documents and instruments and to do, or cause to be done, any and all acts and things necessary or proper for carrying out the transactions contemplated by the Agreement and this resolution.

Section 3. In the event that the governing body of a Member listed in Appendix C of the Agreement fails to adopt a resolution in substantially the form of the Suggested Resolution for Member Authorizing Execution of Project Agreement No. 3 (Member Resolution) appended hereto before April 15, 1990, such Member shall be considered to have elected to relinquish any right or entitlement to further participate in the Project.

Section 4. On or before April 20, 1990, execution copies of the Agreement shall be transmitted to each Member that adopted a Member Resolution prior to April 15, 1990 (remaining Member). Such execution copies shall contain no reference to any other Members and shall establish the Participation Percentage of each remaining Member at the ratio between the remaining Member's Participation Percentage set forth in Appendix C of the Agreement presented at this meeting and the aggregate of the Participation Percentages of all of the remaining Members set forth in that Appendix C, expressed as a percentage; provided that the Participation Percentage so established for any Member shall not exceed the Member's Participation Percentage set forth in Appendix C of the Agreement presented at this meeting by more than 5 percent without the consent of the Member.

Section 5. The Members and TANC agree to share the Tesla to Midway transmission service provided under the Memorandum of Understanding for the Project according to the amounts described in Attachment 2 hereto provided that the Cities of Alameda, Healdsburg, Lodi, Lompoc, Palo Alto, Roseville, and Ukiah, and the

Plumas-Sierra Rural Electric Cooperative shall have a collective option to purchase 5 MW of such service by the assumption of the rights and obligations from the collective rights and obligations, allocated according to their participation percentages in M-S-R Public Power Agency, of the Cities of Redding and Santa Clara and the Modesto Irrigation District, provided that such option must be exercised before Tesla-Midway service begins, and that service provided under such option will be provided for the term of the Tesla to Midway transmission service.

Section 6. This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this 21st day of February, 1990, on a motion by Mr. Hahn, seconded by Mr. Weisel.

	AYES	NOES	ABSTAIN	ABSENT
City of Alameda	X			
City of Biggs			X	
City of Gridley				X
City of Healdsburg	X			
City of Lodi	X			
City of Lompoc	X			
Modesto Irrigation District	X			
City of Palo Alto	X			
Plumas-Sierra Rural				
Electric Cooperative	X			
City of Redding	X			
City of Roseville	X			
Sacramento Municipal				
Utility District	X			
City of Santa Clara	X			
Turlock Irrigation District	X			
City of Ukiah				X

**SUGGESTED RESOLUTION FOR MEMBER AUTHORIZING
EXECUTION OF PROJECT AGREEMENT NO. 3**

WHEREAS, the Members of TANC have developed a Project Agreement No. 3 ("Agreement") to set forth the Members' rights and obligations with regard to the construction and operation of the California-Oregon Transmission Project; and

WHEREAS, on February 21, 1990, by Resolution No. 90-18, the TANC Commission approved that Agreement and directed that the execution copies of the Agreement refer only to TANC Members that adopt resolutions authorizing execution before April 15, 1990, and further directed that such execution copies contained appropriate adjustment of Member Participation Percentages in the event some Members fail to adopt such authorizing resolutions;

BE IT RESOLVED, that each of _____ and _____ is authorized and directed to execute: (i) an execution copy of Project Agreement No. 3 that is prepared in the manner provided for in TANC Resolution No. 90-18, a copy of which is attached hereto and incorporated into this resolution by this reference; and (ii) such amendments and supplements to Project Agreement No. 3 as either such officer determines with the advice of counsel to be necessary or appropriate from time to time hereafter to cure any ambiguity or eliminate superfluous provisions or to correct or supplement any defective provision in Project Agreement No. 3.

Attachment 2

South of Tesla Shares

TANC Member	South of Tesla Allocation (MW)
Alameda	2.57
Healdsburg	0.54
Lodi	2.53
Lompoc	0.61
MID	103.80
Palo Alto	6.38
Plumas-Sierra	0.54
Redding	32.10
Roseville	2.18
SMUD	45.90
Santa Clara	82.80
TID	19.35
Ukiah	0.70
TOTAL	300.00

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**TRANSMISSION AGENCY OF
NORTHERN CALIFORNIA
PROJECT AGREEMENT NO. 3
FOR THE
CALIFORNIA-OREGON TRANSMISSION PROJECT**

2/23/90

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
PROJECT AGREEMENT NO. 3
FOR THE
CALIFORNIA-OREGON TRANSMISSION PROJECT

AMONG
THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
THE CITY OF ALAMEDA
THE CITY OF HEALDSBURG
THE CITY OF LODI
THE CITY OF LOMPOC
THE MODESTO IRRIGATION DISTRICT
THE CITY OF PALO ALTO
THE PLUMAS-SIERRA RURAL ELECTRIC COOPERATIVE
THE CITY OF REDDING
THE CITY OF ROSEVILLE
THE SACRAMENTO MUNICIPAL UTILITY DISTRICT
THE CITY OF SANTA CLARA
THE TURLOCK IRRIGATION DISTRICT
THE CITY OF UKIAH

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
PROJECT AGREEMENT NO. 3
FOR THE
CALIFORNIA-OREGON TRANSMISSION PROJECT

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1 obtain transmission facilities or rights to use transmission
2 facilities for its present or future requirements, through
3 contracts with TANC or otherwise; and

4 D. TANC, on behalf of its Members, executed the
5 December 19, 1984, "Memorandum of Understanding, California-
6 Oregon Transmission Project," among certain California entities
7 and the Western Area Power Administration, which sets forth
8 principles for the development of the California-Oregon
9 Transmission Project including the designation of TANC as Project
10 Manager; and

11 E. The Members of TANC entered into the June 19, 1985,
12 "Project Agreement" for the purposes of issuing and selling a
13 promissory note for financing studies and other preliminary costs
14 to be incurred prior to making a decision, after environmental
15 and other review, of whether to undertake construction of the
16 California-Oregon Transmission Project; and

17 F. The Members of TANC entered into the September 30, 1985,
18 "TANC Project Agreement No. 2 for the California-Oregon
19 Transmission Project" for the purpose of refinancing the
20 promissory note and to fund certain feasibility and planning
21 studies, and to provide for TANC's share of the costs for Project
22 Development Work for the California-Oregon Transmission Project;
23 and

24 G. TANC, on behalf of its Members, executed the
25 September 30, 1985, "California-Oregon Transmission Project
26 Development Agreement" for the purpose of completing required
27 activities such as obtaining approvals, certificates, licenses
28 and permits as required by law and regulation before undertaking

1 construction of the Project; and

2 H. TANC, on behalf of its Members, entered into the
3 Memorandum of Understanding Annex dated February 6, 1986, with
4 the initial Participants and additional non-federal public
5 entities which allocated a 3.125 percent Project entitlement
6 among the additional Participants and re-allocated the remaining
7 entitlement among the initial Participants; and

8 I. The Members of TANC desire to authorize TANC to
9 undertake additional responsibilities as a Participant in the
10 California-Oregon Transmission Project on behalf of the Members,
11 and recognize the desire of all Participants in the California-
12 Oregon Transmission Project for TANC to perform the duties of
13 Project Manager, including the duties and responsibilities
14 described in the "Memorandum of Understanding, California-Oregon
15 Transmission Project," and the "Project Participation Agreement,"
16 as defined in this Agreement; and

17 J. On January 20, 1988, TANC certified the Final
18 Environmental Impact Report for the California-Oregon
19 Transmission Project, the Los Banos-Gates Transmission Project,
20 and the Pacific Northwest Reinforcement Project, made findings
21 pursuant to the California Environmental Quality Act, and
22 approved the California-Oregon Transmission Project; and

23 K. Each Member executing this Agreement has participated in
24 the preparation and review of the Draft Environmental Impact
25 Report and has reviewed and approved the Final Environmental
26 Impact Report for the California-Oregon Transmission Project and
27 adopted the findings made by TANC as lead agency for the
28 California-Oregon Transmission Project.

1
2 NOW, THEREFORE, in consideration of the mutual covenants and
3 conditions set forth in this Agreement, TANC and the Members
4 agree as follows:
5

6 1. DEFINITIONS

7 Whenever used in this Agreement, the following terms shall
8 have the following meanings. The singular of any term shall
9 include the plural and the plural shall include the singular.

10 1.1 "Acquisition and Construction Work" - Any work
11 necessary or useful for acquisition and construction of the
12 Project, including procurement of materials and any land or
13 rights in land in connection therewith; and, in addition, that
14 work to be done pursuant to or in the negotiation of the Intertie
15 Agreements for: management and administrative services;
16 economic, legal, engineering, and other activities; and services
17 which may be necessary or convenient in connection with the
18 Intertie Agreements.

19 1.2 "Addition" - A new facility, other than a Betterment
20 or Replacement, that is added to the Project, together with
21 associated land rights, if any.

22 1.3 "Agreement" - This Project Agreement No. 3 among the
23 Members and TANC, as amended and supplemented from time to time
24 in accordance with the terms hereof.

25 1.4 "Betterment" - A new facility, other than a
26 Replacement, together with associated land rights, if any, which
27 will increase the "Rated Project Transfer Capability" (as that
28 term is defined in the Intertie Agreements) above the then-

1 current Rated Project Transfer Capability or sixteen hundred
2 (1600) megawatts, whichever is less.

3 1.5 "Closing Date" - The date of each issuance of TANC
4 Project Indebtedness, as determined and announced by written
5 notice from TANC to all TANC Members, as further described in
6 Section 4.1.1.

7 1.6 "Debt Service" - With respect to any period, the
8 aggregate of the amounts required by each Indenture to be paid
9 during said period into any fund or account created by the
10 Indenture for the sole purpose of paying or providing reserves
11 for paying the principal (including sinking fund installments) of
12 and premium, if any, and interest on all the Indebtedness from
13 time to time outstanding; provided, however, that Debt Service
14 shall not include any amounts on account of acceleration of the
15 maturity of any Indebtedness.

16 1.7 "Electric System" - All properties and assets, real
17 and personal, tangible and intangible, of any Member (whether
18 leased or owned) now or hereafter existing, used for or
19 pertaining to the generation, transmission, transformation,
20 distribution and sale of electric capacity and energy, including
21 all additions, extensions, expansions, improvements and
22 betterments thereto and equipping thereof; provided, however,
23 that to the extent the Member is a joint owner of an asset or
24 property, only the Member's ownership interest in such asset or
25 property shall be considered to be part of its Electric System.

26 1.8 "Executive Committee" - A committee appointed by the
27 TANC Commission to which it may delegate certain responsibilities
28 as provided in resolutions duly adopted by the TANC Commission

1 pursuant to the Joint Powers Agreement.

2 1.9 "Fiscal Year" - The twelve-month period terminating on
3 September 30 of each year, or any other annual accounting period
4 hereafter selected and designated by TANC as its Fiscal Year for
5 purposes of this Agreement and each Indenture.

6 1.10 "Indebtedness" - Bonds, notes or other evidences of
7 indebtedness (including, without limitation, contracts relating
8 to letters of credit or other credit enhancement devices and
9 long-term contracts which are characterized as debt by TANC at or
10 prior to execution thereof) issued or otherwise incurred or
11 entered into by or on behalf of TANC in connection with the
12 Project. For purposes of this Agreement, Indebtedness shall be
13 considered outstanding as of any date if such Indebtedness has
14 not been paid or if provision for the payment of the principal of
15 and interest on such Indebtedness has not been made in accordance
16 with the Indenture pursuant to which such Indebtedness has been
17 issued or incurred.

18 1.11 "Indenture" - One or more indentures or other
19 instruments approved or adopted by TANC providing for the
20 issuance or incurring of Indebtedness.

21 1.12 "Interest Charge" - That charge against unpaid amounts
22 due and owing in accordance with this Agreement assessed at an
23 annual interest rate compounded monthly equal to the lesser of
24 (i) two percent (2%) plus the applicable first of the month
25 reference rate or successor, of the Bank of America N.T. & S.A.,
26 San Francisco, California, in effect from time to time during the
27 period over which the payment is overdue or (ii) the maximum
28 interest rate permitted by law.

1 1.13 "Intertie Agreements" - Agreements related to the
2 Project which have been or which may be entered into by TANC and
3 some or all of the other Participants, which include, but are not
4 limited to, the MOU, the Project Development Agreement, the
5 Project Participation Agreement, any amendments to the foregoing
6 agreements, and other agreements related to the Project entered
7 into by TANC as Project Manager or by TANC on behalf of the
8 Members.

9 1.14 "Joint Powers Agreement" - The Joint Powers Agreement,
10 Transmission Agency of Northern California, dated December 10,
11 1984, which established TANC as a joint powers agency pursuant to
12 Section 6500 et seq. of the California Government Code, as
13 amended and supplemented from time to time.

14 1.15 "Management Committee" - A committee as described in
15 the MOU and further described in the Intertie Agreements.

16 1.16 "Member" - Any of the Cities of Alameda, Healdsburg,
17 Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and
18 Ukiah; the Sacramento Municipal Utility District; the Modesto
19 Irrigation District; the Turlock Irrigation District; or the
20 Plumas-Sierra Rural Electric Cooperative, which, at any given
21 point in time, is a party to the Joint Powers Agreement and
22 retains its rights and interests under this Agreement.

23 1.17 "MOU" - The Memorandum of Understanding, California-
24 Oregon Transmission Project, dated December 19, 1984, among the
25 Participants, the Department of Water and Power of the City of
26 Los Angeles, and the California Department of Water Resources, as
27 modified by the Memorandum of Decision of the United States
28 Secretary of Energy, dated February 7, 1985, as interpreted by

1 the letter of the United States Department of Energy Acting
2 General Counsel, dated May 4, 1985, a copy of which is attached
3 hereto as Appendix A, as amended by the Memorandum of
4 Understanding Annex, and as it may be further amended.

5 1.18 "Memorandum of Understanding Annex" - The agreement
6 among the Participants, the California Department of Water
7 Resources, and the Department of Water and Power of the City of
8 Los Angeles executed on February 6, 1985 which modified the MOU
9 and allocated a 3.125 percent Project entitlement to certain non-
10 federal public entities set out at 50 Fed. Reg. 42769 (1985) and
11 simultaneously reduced the existing Participants' entitlements by
12 a corresponding percentage, a copy of which is attached hereto as
13 Appendix B.

14 1.19 "Operating Agent" - The Participant designated in the
15 Intertie Agreements to have the duties and responsibilities for
16 the overall operation and maintenance of the Project.

17 1.20 "Opposing Member" - A Member which votes against a
18 Betterment or Addition in accordance with Section 3.1.2.2.1 or
19 3.1.2.2.2.

20 1.21 "Participants" - Those entities, including TANC, which
21 have interests in the Project through execution of the Intertie
22 Agreements.

23 1.22 "Participation Percentage" - That percentage of TANC's
24 entitlement to Transfer Capability which an individual Member of
25 TANC has the right to use as set forth in Appendix C of this
26 Agreement. Such percentages may be modified pursuant to Sections
27 2.3, 3.1.2.2, 6, and 15.

28 1.23 "PDA" - Project Development Agreement.

1 1.24 "Phase" or "Phases" - Those activities of the Project
2 described in Section 2.2.

3 1.25 "Project" - The California-Oregon Transmission
4 Project, which consists of electric transmission facilities
5 between California and the Pacific Northwest, as such Project is
6 generally described in, and as changed pursuant to, the Intertie
7 Agreements.

8 1.26 "Project Development Agreement" - That agreement among
9 the Participants dated September 30, 1985, which provides, inter
10 alia, for the Participants to share the costs of Project
11 Development Work.

12 1.27 "Project Development Work" - That work described in
13 Appendix A of the PDA, or consistent with and within the scope of
14 Appendix A of the PDA and approved by the Management Committee to
15 be performed in accordance with the PDA.

16 1.28 "Project Manager" - The entity designated by the
17 parties to the MOU and the Intertie Agreements which has the
18 overall management responsibility for the Acquisition and
19 Construction Work of the Project.

20 1.29 "Project Participation Agreement" - That agreement
21 which may be executed by those Participants electing to proceed
22 with Phase II and Phase III of the Project, as it may be modified
23 and supplemented in accordance with the terms thereof.

24 1.30 "Replacement" - A new facility that is intended to be
25 a direct replacement for an existing facility, which is designed
26 primarily to maintain the existing operational reliability or
27 capability of the Project, irrespective of whether the
28 replacement results in an incidental increase in the "Rated

1 Project Transfer Capability" (as that term is defined in the
2 Intertie Agreements), and which results in a "retirement unit"
3 being substituted for another such retirement unit. As used
4 herein, "retirement unit" shall mean property as defined in
5 Section 15060 of the Federal Energy Regulatory Commission Uniform
6 System of Accounts Prescribed for Public Utilities and Licensees
7 Subject to the Provisions of the Federal Power Act, or its
8 successor document.

9 1.31 "Revenues" - All income, rents, rates, fees, charges,
10 and other moneys derived by a Member from the ownership or
11 operation of its Electric System, including, without limiting the
12 generality of the foregoing (i) all income, rents, rates, fees,
13 charges, or other moneys derived from the sale, provision, and
14 supply of electric capacity and energy and other services,
15 facilities, and commodities sold, furnished, or supplied through
16 the facilities of the Electric System, (ii) the earnings on and
17 income derived from the investment of such income, rents, rates,
18 fees, charges, or other moneys to the extent that the use of such
19 earnings and income is limited to the Electric System by or
20 pursuant to law and (iii) the proceeds derived by such Member
21 directly or indirectly from the sale, lease, or other disposition
22 of a part of the Electric System as permitted hereby; but the
23 term "Revenues" shall not include customers' deposits or advances
24 subject to refund or contributions in aid of construction until
25 such deposits, advances, or contributions have become the
26 property of the Member.

27 1.32 "TANC Capital Improvement Costs" - Those costs
28 incurred in connection with Phase III of the Project allocable to

1 TANC for the purpose of making Additions, Betterments, or
2 Replacements to the Project and such other costs relating to
3 capital improvements to the Project properly chargeable to TANC
4 pursuant to the Intertie Agreements.

5 1.33 "TANC Commission" - The governing body of TANC as
6 described in the Joint Powers Agreement.

7 1.34 "TANC Coordinator" - An entity appointed by TANC to,
8 inter alia, coordinate the Members' use of TANC's entitlement to
9 Transfer Capability.

10 1.35 "TANC Project Costs" - Those costs incurred in
11 connection with Phase II of the Project allocable to TANC and
12 such other costs relating to the acquisition and construction of
13 the Project properly chargeable to TANC pursuant to the Intertie
14 Agreements.

15 1.36 "TANC Project Indebtedness" - That Indebtedness to be
16 issued by TANC to finance TANC Project Costs, TANC Project O&M
17 Costs, TANC Capital Improvement Costs, and such other costs as
18 are described in Section 4.1.3.1.

19 1.37 "TANC Project O&M Costs" - Those costs incurred in
20 connection with Phase III of the Project allocable to TANC which
21 are necessary to operate and maintain the Project, such other
22 costs relating to the operation and maintenance of the Project
23 properly chargeable to TANC pursuant to the Intertie Agreements,
24 and costs of the TANC Coordinator. TANC Project O&M costs shall
25 not include TANC Project Costs or TANC Capital Improvement Costs.

26 1.38 "Transfer Capability" - The ability of the Project or
27 a segment thereof to transmit power, expressed in megawatts, as
28 determined in accordance with the Intertie Agreements. As used

1 in this Agreement, the term "Transfer Capability" can refer to a
2 rated amount or an amount available at any given time, as
3 appropriate in the context in which such term is used. TANC and
4 its Members acknowledge that there may be times when available
5 Transfer Capability is less than the rated amount for the Project
6 or a segment thereof.

7 1.39 "Trustee" - Any trustee, including any successor
8 trustee, under an Indenture.

9
10 2. PROJECT PARTICIPATION AND AUTHORIZATION

11 2.1 Scope - TANC is hereby authorized and directed to act
12 on behalf of the Members in activities related to Phase II and
13 Phase III of the Project, as more fully described below, as a
14 Participant pursuant to the Intertie Agreements, subject to
15 procedures for Member approval and authorization established by
16 the TANC Commission pursuant to this Agreement and the Joint
17 Powers Agreement. TANC is also hereby authorized to fulfill its
18 duties and responsibilities as Project Manager or under any other
19 management role pursuant to the Intertie Agreements.

20 2.2 Phases - The Project shall proceed in accordance with
21 the following activities:

22 2.2.1 Phase I activities consist of Project
23 Development Work;

24 2.2.2 Phase II activities consist of Acquisition and
25 Construction Work;

26 2.2.3 Phase III activities consist of operation,
27 maintenance, Additions, Betterments, Replacements, and the
28 retirement or disposal of the Project.

1 2.3 Participation

2 2.3.1 Pursuant to Paragraph 15 of the Joint Powers
3 Agreement, the Members executing this Agreement each hereby
4 (i) approve TANC's participation in the Project as a
5 Participant in accordance with, and to the extent provided
6 in, the Intertie Agreements and this Agreement and (ii)
7 elect to participate in Phases II and III of the Project in
8 the Participation Percentages set forth in Appendix C, as
9 those percentages may be revised in accordance with this
10 Agreement. In consideration of such approval and election,
11 and payment of its share of the costs set forth in
12 Section 4, each Member shall be entitled to its respective
13 Participation Percentage share of TANC's entitlement to
14 Transfer Capability on the terms and conditions provided for
15 by this Agreement. In the event that the first issuance and
16 sale of TANC Project Indebtedness does not occur within six
17 (6) months after the date of this Agreement, any Member may
18 terminate its participation under this Agreement by giving
19 written notice to TANC, in which case the Participation
20 Percentage of such Member shall be divided pro rata among
21 the remaining Members based on Participation Percentages,
22 unless otherwise agreed to by such remaining Members. After
23 the first issuance and sale of such TANC Project
24 Indebtedness, no Member may terminate its participation in
25 this Agreement.

26 2.3.2 In the event that TANC's entitlement to
27 Transfer Capability changes from time to time, within sixty
28 (60) days after such change, the Members shall be permitted

1 to revise the Participation Percentages set forth in
2 Appendix C without an amendment to this Agreement, subject
3 to the following conditions:

4 2.3.2.1 The Participation Percentages set
5 forth in Appendix C shall govern in the event that the
6 Members are unable to agree to such a revision to
7 Appendix C;

8 2.3.2.2 No Member shall be required to
9 accept a Participation Percentage which, when
10 multiplied by TANC's megawatt entitlement to Transfer
11 Capability, would exceed the megawatt amount set forth
12 in the Appendix C, Column D, in which event such
13 excess Participation Percentage shall be divided pro
14 rata among the other Members based on Participation
15 Percentages, unless otherwise agreed to by such
16 Members;

17 2.3.2.3 No Member may agree to a
18 Participation Percentage which, when multiplied by
19 TANC's megawatt entitlement to Transfer Capability,
20 would be less than the megawatt amount set forth in
21 Appendix C, Column C;

22 2.3.2.4 No Member may agree to a
23 Participation Percentage which, when multiplied by
24 TANC's megawatt entitlement to Transfer Capability,
25 would exceed the megawatt amount set forth in
26 Appendix C, Column D, if the effect of such agreement
27 would be to materially, adversely alter any rights of
28 or security for holders of TANC Project Indebtedness.

2.3.3 Members acknowledge and agree that,
notwithstanding the foregoing provisions, Member defaults
may result in a non-defaulting Member accepting a megawatt
amount in excess of the limits set forth in Appendix C,
Column D. Members also acknowledge and agree that,
notwithstanding the foregoing provisions, no such agreement
shall result in aggregate Participation Percentages of the
Members of less than one hundred (100) percent.

3. DUTIES AND RESPONSIBILITIES OF TANC DURING PHASE II AND
PHASE III

3.1 Decisions - Decisions related to the Project shall be
made by the TANC Commission at meetings to be held at times and
places determined by the TANC Commission; provided, that the TANC
Commission may delegate decisions to its Executive Committee or
others, between meetings, as provided in resolutions duly adopted
by the TANC Commission pursuant to the Joint Powers Agreement.

3.1.1 The exercise of the rights and obligations of
TANC under this Agreement shall be subject to the control at
all times of the TANC Commission.

3.1.2 Voting - Approvals or authorizations required
under this Agreement shall be given or withheld by the TANC
Commission using the voting procedures described in the
Joint Powers Agreement, subject to the following provisions:

3.1.2.1 Phase II Activities - With regard to
Phase II activities as described in Section 2.2.2, to
constitute a quorum, the combined Participation
Percentages of the Members not in default represented

1 by the TANC Commissioners present must represent at
2 least sixty (60) percent of the aggregate
3 Participation Percentages of Members not in default at
4 the time of the vote and the action must be approved
5 by TANC Commissioners representing at least a majority
6 of the aggregate Participation Percentages of Members
7 not in default at the time of the vote.

8 3.1.2.2 Phase III Activities - With regard
9 to Phase III activities as described in Section 2.2.3,
10 to constitute a quorum, the combined Participation
11 Percentages of the Members not in default represented
12 by the TANC Commissioners present must represent at
13 least sixty (60) percent of the aggregate Participa-
14 tion Percentages of Members not in default at the time
15 of the vote and the action must be approved by TANC
16 Commissioners representing at least a majority of the
17 aggregate Participation Percentages of Members not in
18 default at the time of the vote, provided:

19 3.1.2.2.1 In the event that a
20 Member votes against a proposed Betterment,
21 such Opposing Member shall have no obligations
22 stemming from such Commission action nor shall
23 such Opposing Member have any right to
24 participate in the benefits of such Commission
25 action and, with regard to such benefits and
26 obligations, the Participation Percentage of
27 each Member except for the Opposing Member(s)
28 shall be increased to the ratio between each

1 such Member's Participation Percentage and the
2 aggregate of the Participation Percentages of
3 the Members excluding such Opposing Member(s),
4 expressed as a percentage.

5 3.1.2.2.2 In the event that a
6 Member votes against a proposed Addition to
7 the Project in any Fiscal Year, and TANC's
8 share of the cost of all Additions previously
9 approved in such Fiscal Year when added to
10 TANC's share of the cost of the proposed
11 Addition exceeds twenty-five million dollars
12 (\$25,000,000) adjusted in accordance with
13 changes in the Consumer Price Index (CPI) or
14 successor index using the January 1, 1990,
15 level as the base year, with regard to such
16 Opposing Member's Participation Percentage of
17 such excess amount only, such Opposing Member
18 shall have no obligations stemming from such
19 Commission action nor shall such Opposing
20 Member have any right to participate in the
21 benefits of such Commission action. With
22 regard to the rights and obligations
23 associated with such excess amount, the
24 Members excluding such Opposing Member(s)
25 shall negotiate appropriate adjustments to
26 their Participation Percentages.

27 3.1.2.2.3 In the event that a
28 Member votes against a proposed Replacement,

1 such Member shall nevertheless be bound by the
2 outcome of such Commission action.

3 3.1.2.2.4 Nothing contained herein
4 is intended to relieve any Member from its
5 obligations resulting from Commission action
6 except as specifically provided in Sections
7 3.1.2.2.1 and 3.1.2.2.2.

8 3.1.2.2.5 Each agreement by the
9 Members with respect to Betterments or
10 Additions shall specifically recognize TANC's
11 rights under this Agreement which secure TANC
12 Project Indebtedness.

13 3.2 Specific Duties and Responsibilities - TANC, through
14 the approval of the TANC Commission, shall be empowered to
15 perform all duties appropriate for the implementation of Phase II
16 and Phase III of the Project, subject to the terms hereof,
17 including but not limited to:

18 3.2.1 Act as Project Manager or in any other
19 managerial role for the Project in accordance with the
20 Intertie Agreements;

21 3.2.2 Authorize (i) the issuance or incurrence of
22 Indebtedness and the appropriate documentation related
23 thereto, (ii) the contract of purchase or notice of sale or
24 other instrument under which Indebtedness is to be sold or
25 incurred, (iii) the selection of managing underwriters for
26 Indebtedness (if such Indebtedness is to be sold upon a
27 negotiated basis), and (iv) the manner and timing of
28 marketing (including the manner of sale), if applicable,

1 interest rates, and other terms of Indebtedness;

2 3.2.3 Provide periodic reports of major construction
3 and major events to the Members with respect to the Project;

4 3.2.4 Review, discuss, and attempt to resolve any
5 disputes among TANC and/or the Members;

6 3.2.5 Negotiate, review, approve, execute, enforce
7 and modify Intertie Agreements as a Participant on behalf of
8 the Members for Phase II and Phase III and perform all
9 activities necessary to fulfill TANC's obligations as a
10 Participant under those agreements;

11 3.2.6 Approve and engage consultants or advisors on
12 financial, economic, engineering, environmental, management,
13 and legal or other matters;

14 3.2.7 Review, modify, and approve TANC's insurance
15 program including, without limitation, the establishment of
16 a self-insurance program;

17 3.2.8 Incur costs, liabilities, and obligations;

18 3.2.9 Purchase, sell, rent, and lease equipment,
19 apparatus, materials, and supplies and establish and
20 maintain inventories of any of the foregoing;

21 3.2.10 Acquire by purchase or eminent domain any
22 interest in property, real or personal;

23 3.2.11 Enforce, waive, adjust or compromise any claim
24 by or against TANC, including claims covered by or relating
25 to insurance policies;

26 3.2.12 Initiate, defend, and otherwise participate in
27 legal and administrative proceedings;

28 3.2.13 Maintain for Member inspection and audit for

1 the term of this Agreement, and for three (3) years
2 thereafter, books and cost records of TANC in accordance
3 with generally accepted accounting principles;

4 3.2.14 Perform other tasks as may be necessary to
5 fulfill its obligations as a Participant, as Project
6 Manager, and in any other managerial role under this
7 Agreement and the Intertie Agreements during Phase II and
8 Phase III of the Project in a timely, cost effective manner.
9

10 4. OBLIGATIONS OF MEMBERS DURING PHASE II AND PHASE III

11 4.1 TANC Project Costs - Subject to Section 3.1.2.2, each
12 Member agrees to pay, based on its Participation Percentage, its
13 portion of TANC Project Costs, its portion of TANC Project O&M
14 Costs, its portion of TANC Capital Improvement Costs, and its
15 portion of Debt Service on TANC Project Indebtedness, in each
16 case as provided in this Section 4.1:

17 4.1.1 At least sixty (60) days prior to the initial
18 Closing Date and at least sixty (60) days prior to the
19 commencement of each Fiscal Year thereafter, the TANC
20 Commission shall develop, approve, and distribute to the
21 Members a budget for TANC Project Costs, Debt Service for
22 TANC Project Indebtedness, TANC Project O&M Costs, and TANC
23 Capital Improvement Costs which the TANC Commission
24 estimates will be incurred during the then-current Fiscal
25 Year in the case of the initial budget and during the next
26 succeeding Fiscal Year for all subsequent budgets. Such
27 budgets shall be generally based upon budgets approved by
28 the Management Committee and upon TANC's estimates of TANC

1 Project Costs, Debt Service for TANC Project Indebtedness,
2 TANC Project O&M Costs, and TANC Capital Improvement Costs;
3 provided, that if a budget has not been approved by the
4 Management Committee the budget shall be based upon TANC's
5 estimates. Each budget other than the initial budget shall
6 also include a variance report which compares actual
7 expenditures with budgeted amounts for the previous Fiscal
8 Year. As soon as practicable after the approval of each
9 such budget, TANC shall mail the budget to the Members.
10 Members acknowledge and agree that Participant defaults or
11 withdrawals that result in changes in TANC's ownership
12 interest in the Project will require changes in TANC's
13 payment obligations under the Intertie Agreements
14 approximately proportionate to the change in TANC's
15 entitlement to Transfer Capability and a corresponding
16 change in the Members' payment obligations hereunder. TANC,
17 if requested by any Member, will make best efforts to
18 remarket any entitlement to Transfer Capability that such
19 Member or its designated agent may determine to be in excess
20 of that Member's requirements. Remarketing efforts will be
21 focused on the other Members, the Western Area Power
22 Administration, the California Department of Water
23 Resources, and other Participants. Members also acknowledge
24 and agree that some anticipated Participants may elect not
25 to enter into the Intertie Agreements for Phase II and
26 Phase III of the Project and that this Agreement is intended
27 to permit the Project to be constructed without such
28 anticipated Participants so that TANC's ownership interest

1 in the Project, and thus the amount of Transfer Capability
2 to which each Member shall be entitled pursuant to this
3 Agreement, will vary depending on the final ownership
4 interests established for TANC and the other Participants
5 pursuant to the Intertie Agreements. TANC currently
6 anticipates that, at the time of execution of the Intertie
7 Agreements, the Intertie Agreements will establish TANC's
8 initial ownership interest in the Project at a minimum of
9 42.2916% and a maximum of 93.75%.

10 4.1.2 Each of the Members hereby approves the
11 issuance and sale of TANC Project Indebtedness as provided
12 in Section 4.1.3.1 below subject to approval of the TANC
13 Commission pursuant to Section 3.1.2. Such approvals are
14 intended to be and are limited to the approvals required by
15 Paragraphs 6 and 15 of the Joint Powers Agreement. Such
16 Indebtedness shall not constitute a debt, liability or
17 obligation of any of the Members and shall not constitute a
18 debt of TANC payable by the Members pursuant to Paragraph 21
19 of the Joint Powers Agreement.

20 4.1.3 Subject to Section 3.1.2.2, each of the
21 Members hereby severally requests and agrees as follows:

22 4.1.3.1 Each Member requests that TANC
23 issue, sell, or otherwise incur Indebtedness from time
24 to time pursuant to the provisions of Chapter 5,
25 Division 7, Title 1 of the Government Code of the
26 State of California or any other applicable provisions
27 of law in amounts which will be sufficient to permit
28 TANC to pay, when due, all TANC Project Costs, TANC

1 Project O&M Costs through the first full Fiscal Year
2 after completion of the Project, TANC Capital
3 Improvement Costs, costs of issuance, credit
4 enhancements and other costs incurred in connection
5 with the issuance or incurring of TANC Project
6 Indebtedness, and to provide for capitalized interest
7 as determined by TANC and for required deposits to
8 funds and accounts established by each Indenture and,
9 in addition, to provide for the principal and interest
10 on all Indebtedness outstanding on the initial Closing
11 Date (all of said Indebtedness to constitute TANC
12 Project Indebtedness). Whenever TANC deems it
13 beneficial to the Members, as a result of Debt Service
14 savings or otherwise, upon approval of the TANC
15 Commission, TANC may issue Indebtedness to refund
16 outstanding TANC Project Indebtedness (which the
17 Members hereby authorize) and the same shall be TANC
18 Project Indebtedness.

19 4.1.3.2 Each Member severally agrees to pay
20 to TANC an amount equal to its Participation
21 Percentage of all Debt Service on the TANC Project
22 Indebtedness to enable TANC to pay such Debt Service
23 at the times and in the manner set forth in the
24 applicable Indentures. Each Member also agrees to pay
25 to TANC, in accordance with Section 22, an amount
26 equal to its Participation Percentage of TANC Project
27 Costs, TANC Project O&M Costs, and TANC Capital
28 Improvement Costs, not financed by TANC Project

1 Indebtedness as indicated in the budgets prepared
2 pursuant to Section 4.1.1, including any budget
3 revisions made pursuant to Section 4.1.5.

4 4.1.3.3 Upon failure of a Member to make any
5 of the payments described in Section 4.1.3.2, TANC
6 shall make demand upon such Member, and if said
7 failure is not remedied within forty-five (45) days
8 from the date of such demand, it shall constitute a
9 default at the expiration of such forty-five (45) day
10 period. Such default shall be handled in accordance
11 with Section 6. Notice of such demand shall be
12 provided to the other Members.

13 4.1.3.4 Each Member agrees to establish
14 rates and charges for its Electric System so as to
15 provide Revenues sufficient, together with other
16 available funds derived from its Electric System, to
17 pay, when due, all amounts payable by such Member
18 under this Agreement and to pay all other amounts
19 payable from, and all lawful charges against or liens
20 upon, the Revenues of its Electric System.

21 4.1.3.5 Each Member shall be obligated to
22 make payments under this Section 4.1.3 and to budget
23 for such payments solely from the Revenues of, and as
24 an operating expense of, its Electric System. Each
25 Member shall make the payments required of it by this
26 Agreement in the amounts and at the times determined
27 pursuant to this Agreement and such payments and the
28 obligation to make same shall be absolute and

1 unconditional and such payments shall be made whether
2 or not the Project or any part thereof has been
3 completed, is operating or operable or its output or
4 capability is suspended, interrupted, interfered with,
5 reduced or curtailed, or terminated in whole or in
6 part, and such payments shall not be subject to
7 reduction whether by offset, counterclaim, recoupment
8 or otherwise and shall not be conditioned upon the
9 performance or nonperformance by any party to any
10 agreement or for any other cause or reason whatsoever.

11 4.1.3.6 Each Member covenants and agrees
12 that it shall, at all times so long as any TANC
13 Project Indebtedness remains outstanding, operate the
14 properties of its Electric System and business in
15 connection therewith in an efficient manner and at a
16 reasonable cost and shall maintain its Electric System
17 in good working order and condition, and shall
18 cooperate with TANC in the performance of the
19 respective obligations of TANC and such Member under
20 this Agreement.

21 4.1.3.7 Each Member agrees that all rights,
22 title, and interest of TANC in and to all payments
23 required to be made under this Section 4.1.3 by the
24 Members pursuant to the provisions hereof may be
25 pledged and assigned under the Indentures to secure
26 the TANC Project Indebtedness.

27 4.1.4 Funds received by TANC from the issuance and
28 sale of TANC Project Indebtedness shall be applied to one or

1 more of the purposes specified in Section 4.1.3.1 in
2 accordance with the Indenture authorizing such TANC Project
3 Indebtedness.

4 4.1.5 TANC may, from time to time, revise the
5 budgets established pursuant to Section 4.1.1 as necessary.
6 Such budgets shall include adjustments for variances between
7 estimated and actual costs included in previous budgets. In
8 that event, subject to Section 3.1.2, the procedures of
9 Sections 4.1.2 through 4.1.4 shall be followed for payment
10 of any additional costs.
11

12 5. TERM, TERMINATION, AND AMENDMENTS

13 5.1 Term - This Agreement shall take effect as of the date
14 hereof and shall remain in full force and effect during the term
15 of the Joint Powers Agreement and the Intertie Agreements (as
16 their terms may be extended) or so long as any TANC Project
17 Indebtedness remains outstanding, whichever is longer.

18 5.2 Termination - This Agreement shall not be subject to
19 termination by TANC or any Member under any circumstances,
20 whether based upon the default of any party under this Agreement,
21 or any other instrument, or otherwise.

22 5.3 Amendments - So long as any TANC Project Indebtedness
23 is outstanding, this Agreement may be amended, modified, or
24 otherwise changed or rescinded, except as provided in the
25 applicable Indentures, so long as such amendment, modification,
26 change, or rescission would not materially, adversely alter any
27 rights of or security for holders of such Indebtedness. Except
28 as provided in Section 8.3, this Agreement may be amended only by

1 the written agreement of all of the parties hereto.

2
3 6. DEFAULT

4 6.1 Defaulting Member's Participation Percentage - Upon
5 the failure of any Member or, with respect to its obligations
6 under Section 15, a former Member who has withdrawn, to meet its
7 obligations hereunder, TANC shall give written notice of the
8 failure to such Member or former Member who has withdrawn and, if
9 such failure has not been cured within forty-five (45) days after
10 the date of such notice, it shall constitute a default at the
11 expiration of such forty-five (45) day period. Upon such
12 default, in addition to the rights and remedies available to TANC
13 pursuant to Section 6.2, TANC may protect and enforce its rights
14 hereunder by suit or suits in equity or at law, whether for the
15 specific performance of any covenant herein or for damages or in
16 aid of the execution of any power granted herein or any other
17 remedy available under any provision of applicable law. No
18 remedy by the terms of this Agreement conferred upon or reserved
19 to TANC is intended to be exclusive of any other remedy, but each
20 and every such remedy shall be cumulative and shall be in
21 addition to every other remedy given under this Agreement or
22 existing at law or in equity or by statute on or after the
23 effective date of this Agreement.

24 6.2 Nondefaulting Member's Participation Percentage - Upon
25 any default described in Section 4.1.3.3, the defaulting Member
26 shall no longer be entitled to any rights granted to the Members
27 with respect to the Project, and each Member severally agrees
28 that the Participation Percentage of each nondefaulting Member

1 shall be automatically increased as follows:

2 6.2.1 Each Member severally agrees that the
3 Participation Percentage of each nondefaulting Member shall
4 be automatically increased to the ratio between such
5 nondefaulting Member's Participation Percentage and the
6 aggregate of the Participation Percentages of the
7 nondefaulting Members, expressed as a percentage. For
8 purposes of this Section 6.2.1 and Section 6.2.2, the term
9 "Member" shall include, but not be limited to, each former
10 Member who has withdrawn from TANC and converted its
11 Participation Percentage of TANC's entitlement to Transfer
12 Capability to an ownership interest in the Project pursuant
13 to Section 15, and the term "Participation Percentage" shall
14 mean that percentage which would represent such withdrawn
15 Member's Participation Percentage of TANC's entitlement to
16 Transfer Capability if such conversion had not occurred.

17 6.2.2 Notwithstanding the provisions of Section
18 6.2.1, the cumulative increase for any nondefaulting Member
19 pursuant to this Section 6.2 shall not exceed twenty-five
20 percent (25%) of its Participation Percentage in effect
21 immediately prior to the first default without the consent
22 of the Member; provided, that for purposes of determining
23 such cumulative increase any increase (i) pursuant to
24 Section 2.3 or 3.1.2.2, or (ii) which results because a
25 Member has withdrawn from TANC and converted its
26 Participation Percentage of TANC's entitlement to Transfer
27 Capability to an ownership interest in the Project pursuant
28 to Section 15, shall not be considered. The nondefaulting

1 Members shall be entitled to the rights which the defaulting
2 Member loses upon the default and shall assume subject to
3 Section 6.3 all of the obligations of the defaulting Member
4 with respect to such rights hereunder. Increases in the
5 Participation Percentages of the nondefaulting Members shall
6 be applicable to any payments due and not paid by the
7 defaulting Member at the time of the increase and all
8 subsequent payments due and not paid by the defaulting
9 Member.

10 6.3 Defaulting Member's Obligations - Each Member agrees
11 that increases in the obligations of other Members pursuant to
12 Section 6.2 shall not relieve the defaulting Member or a former
13 Member who has withdrawn, of its liability for its obligations
14 described hereunder. The nondefaulting Members shall have a
15 right of recovery from the defaulting Member to the extent of
16 increases in their obligations resulting from such default (plus
17 interest at the Interest Charge) from the date of such default
18 until paid.

19 6.4 Tax Covenant - Notwithstanding any other provision of
20 this Agreement, no Member shall transfer, assign, sell or
21 exchange any portion of its Participation Percentage of TANC's
22 entitlement to Transfer Capacity, or any other interest in the
23 Project or the capacity or capability thereof, directly or
24 indirectly, in any manner, or shall take, or to the extent it can
25 control the same permit to be taken, any other action or actions,
26 which would adversely affect the exclusion of the interest on any
27 of the TANC Project Indebtedness from gross income for federal
28 income tax purposes under Section 103 of the Internal Revenue

1 Code of 1986, as amended, and the applicable regulations
2 thereunder (or any successors to such statute and regulations),
3 including without limitation, by reason of classification of such
4 TANC Project Indebtedness as a "private activity bond" within the
5 meaning of said Code.

6
7 7. USE OF TRANSFER CAPABILITY

8 7.1 Member Use of Transfer Capability - Subject to the
9 provisions of this Section 7, Section 6.4, and Section 8 hereof,
10 each Member shall have the right to use its Participation
11 Percentage of TANC's entitlement to Transfer Capability for any
12 purpose, including holding such Transfer Capability in reserve or
13 making such Transfer Capability available to a Member,
14 Participant, or other entity, subject to the terms and conditions
15 relating to assignments and layoffs by Participants under the
16 Intertie Agreements; provided, that before a Member may make
17 unneeded Transfer Capability available to a non-Member, it shall
18 make such Transfer Capability available to the other Members on
19 terms and conditions which are established by the TANC
20 Commission. Nothing in this Section 7.1, however, shall prohibit
21 a Member or its designated agent from requesting that the TANC
22 Coordinator make all or part of such Member's unused Transfer
23 Capability available to other Members on behalf of such Member.

24 7.2 Non-Member Use of Transfer Capability - Each Member or
25 its designated agent shall notify the TANC Coordinator in the
26 event that it does not need all or a portion of its Participation
27 Percentage of TANC's entitlement to Transfer Capability and no
28 other Member needs such Transfer Capability. In such event, the

1 TANC Coordinator shall then make such Transfer Capability
2 available to the other Participants pursuant to the provisions of
3 the Intertie Agreements. Otherwise, each Member or its
4 designated agent shall determine the disposition of its unneeded
5 Transfer Capability, which may include directing the TANC
6 Coordinator to make such Transfer Capability available to any
7 entity on such terms and conditions as such Member or its
8 designated agent may direct.

9 7.2.1 Compensation - Compensation for the use of a
10 Member's Participation Percentage of TANC's entitlement to
11 Transfer Capability by other Participants will be as set
12 forth in the Intertie Agreements. In the event that the
13 provisions of the Intertie Agreements do not apply to the
14 transaction, compensation shall be as determined by each
15 Member making such Transfer Capability available.

16 7.2.2 Allocation of Revenue - Payments for the use
17 of TANC's unneeded entitlement to Transfer Capability by
18 non-Members shall be collected by TANC and promptly and
19 fully credited directly to the Member making such Transfer
20 Capability available. Each such Member agrees that all
21 right, title, and interest of such Member and TANC in and to
22 such payments may be pledged and assigned under the
23 Indentures to secure payments required to be made under
24 Section 4.1.3 by or on behalf of such Member.

25 7.3 MOU Layoffs - In accordance with Sections 10.1 and
26 10.2 of the MOU as implemented by the Intertie Agreements, TANC
27 shall lay off a portion of its entitlement to Transfer
28 Capability. Compensation to TANC by those entities receiving the

1 layoff is to be based on TANC's Project Cost including financing
2 plus contingencies of twenty-five (25) percent.

3 7.3.1 Unless otherwise agreed by the Members, each
4 Member shall provide its portion of such layoffs in
5 accordance with the Member's Participation Percentage.

6 7.3.2 Payments for the layoff of TANC's entitlement
7 to Transfer Capability as described in Sections 10.1 and
8 10.2 of the MOU shall be collected by TANC and promptly and
9 fully credited to the Members based on each Member's
10 Participation Percentage unless otherwise agreed by the
11 Members. Each such Member agrees that all right, title, and
12 interest of such Member and TANC in and to such payments may
13 be pledged and assigned under the Indentures to secure
14 payments required to be made under Section 4.1.3 by or on
15 behalf of such Member.

16 7.4 In the event that a Member's Participation Percentage
17 of TANC's entitlement to Transfer Capability converted to
18 megawatts exceeds the megawatt amount in Appendix C, Column E,
19 layoffs made by TANC pursuant to Sections 7.2 and 7.3 shall first
20 be made from such excess amount if so requested by that Member.
21 If more than one Member has such an excess amount and the sum of
22 all such excess amounts exceeds the amount of the layoff, the
23 layoff shall be made pro rata based on the ratio between each
24 such requesting Member's excess amount and the sum of all such
25 requesting Members' excess amounts.

26 7.5 Notwithstanding anything to the contrary contained in
27 this Section 7, no layoff of Transfer Capability made pursuant to
28 this Section 7 shall excuse a Member from making the full

1 payments required by Section 4 hereof nor reduce the amount or
2 extend the time of such payments.

3

4 8. SCHEDULING

5 8.1 Member Scheduling Rights - During any scheduling
6 period, each Member or its designated agent shall have the right
7 to schedule power transactions using Transfer Capability up to
8 the amount of its Participation Percentage of TANC's entitlement
9 to Transfer Capability, subject to the provisions of Section 7 of
10 this Agreement. Each Member or its designated agent may also
11 schedule power transactions over any additional percentage of
12 Transfer Capability that it has a right to use. Notwithstanding
13 the provisions of Section 8.2, each Member or its designated
14 agent shall have the right to schedule such transactions pursuant
15 to its separate agreements with other entities. All power
16 scheduled over the Project shall be in whole megawatt amounts or
17 as otherwise set forth in the Intertie Agreements.

18 8.2 Project Use Information Coordination - Each Member or
19 its designated agent shall provide the TANC Coordinator with
20 Project use information required to meet TANC's obligations under
21 the Intertie Agreements as a Participant in the Project. The
22 TANC Coordinator shall submit such information to the Operating
23 Agent in accordance with such agreements.

24 8.3 Scheduling and Curtailment Procedures - Specific
25 procedures which implement the provisions of this Section 8 and
26 Section 7 hereof are set forth in Appendix D. The Members and
27 their designated agents agree to comply with such procedures, as
28 they may be modified from time to time by a vote of the TANC

Commission pursuant to Section 3.1.2.

9. INSURANCE AND INDEMNIFICATION

TANC shall maintain, or cause to be maintained in force, insurance as may be determined prudent in the judgment of the TANC Commission and as may be required by the provisions of the Intertie Agreements and any Indenture. TANC shall indemnify, defend, and hold harmless each Member, and its governing board members, officers, employees and agents, from any liability for personal injury, death, or property damage arising out of the negligent activities of TANC pursuant to this Agreement or the Intertie Agreements.

10. COMPLIANCE WITH OTHER INSTRUMENTS

It is recognized by the parties hereto that, for the benefit of the Members, TANC, in undertaking, or causing to be undertaken, the planning, licensing, financing, construction, and operation of TANC's share of the Project, must comply with the requirements of each Indenture, the Intertie Agreements, all applicable licenses, permits, and regulatory approvals necessary therefor, and the Joint Powers Agreement.

11. LIABILITY OF TANC OFFICERS

11.1 Release - Each Member agrees that TANC's Commissioners, officers, and employees shall not be liable to the Members for direct, indirect or consequential loss or damage suffered by the Members as a result of (i) the performance or nonperformance by TANC under any Intertie Agreements or (ii) the

1 performance or nonperformance of TANC under this Agreement. Each
2 Member releases TANC's Commissioners, officers, and employees
3 from any claim or liability (whether negligent or otherwise) as a
4 result of any actions or inactions of TANC under this Agreement
5 or the performance or nonperformance by TANC under any Intertie
6 Agreement.

7 11.2 No Modification - The provisions of this Section 11
8 shall not be construed so as to relieve TANC of any obligations
9 under any of the Intertie Agreements and the provisions of this
10 Section 11 shall not be construed to modify or amend Paragraph 2
11 of the Joint Powers Agreement.

12
13 12. NOTICE AND COMPUTATION OF TIME

14 12.1 Manner of Notices - Any notice or demand by a Member
15 to TANC under this Agreement shall be deemed properly given if
16 deposited in the United States mail first class postage prepaid
17 or its equivalent, or sent via facsimile or other electronic
18 media and confirmed by telephone or in writing within twenty-four
19 (24 hours), addressed to TANC at its operational office; any
20 notice or demand by TANC to any Member under this Agreement shall
21 be deemed properly given if deposited in the United States mail
22 first class postage prepaid or its equivalent, or sent via
23 facsimile or other electronic media and confirmed by telephone or
24 in writing within twenty-four (24 hours), addressed to the
25 addressee shown on the signature pages hereof at the address
26 shown in Appendix E. The designations of the name and address to
27 which any such notice or demand is directed may be changed at any
28 time and from time to time by any party giving notice as above

provided in this Section.

12.2 Time Computed - In computing any period of time from such notice, such period shall commence on the date mailed or, if sent via facsimile or other electronic media, on the date sent.

13. APPLICABLE LAW

This Agreement is made under and shall be governed by the laws of the State of California.

14. SEVERABILITY

If any section, paragraph, clause, or provision of this Agreement, or any part thereof, shall be finally adjudicated by a court of competent jurisdiction to be invalid, the remainder of this Agreement shall remain in full force and effect as though such section, paragraph, clause, or provisions or any part thereof so adjudicated to be invalid had not been included herein.

15. MEMBER'S RIGHT TO WITHDRAW

15.1 Conversion of Participation Percentage to Undivided Ownership Interest - TANC's undivided ownership interest in the Project shall constitute rights or property acquired and owned by TANC and no Member shall have an ownership interest in the Project except upon withdrawal from TANC and conversion of its Participation Percentage to an undivided ownership interest as provided herein. After the commercial operation date of the Project, each Member not then in default shall be entitled to withdraw from TANC and convert its Participation Percentage into

1 an undivided ownership interest in the Project. Such Member's
2 undivided ownership interest shall be equal in amount to its
3 Participation Percentage multiplied by TANC's then undivided
4 ownership interest in the Project. Upon such withdrawal and
5 conversion, at the express written request of the withdrawing
6 Member, TANC shall make best efforts to take such administrative
7 actions, including the execution of such documents and amendments
8 to the Intertie Agreements, as may be reasonably requested by the
9 withdrawing Member to establish and evidence such Member's
10 undivided ownership interest in the Project and such Member's
11 role as a Participant under the Intertie Agreements, and all
12 reasonable administrative and legal costs associated with such
13 unopposed withdrawal and conversion shall be the responsibility
14 of such withdrawing Member. Each Member electing to withdraw
15 from TANC and so convert its Participation Percentage shall hold
16 its ownership interest as a tenant in common with TANC and the
17 other Participants as set forth in the Intertie Agreements.

18 15.2 Procedure and Conditions - Notwithstanding Paragraphs
19 19 and 20 of the Joint Powers Agreement, a Member may withdraw
20 from TANC and convert its Participation Percentage into an
21 undivided ownership interest in the Project by requesting that
22 TANC assign to the Member an undivided ownership interest in the
23 Project as provided in Section 15.1 and all rights, interest, and
24 obligations related thereto, and by giving written notice to TANC
25 and all other former Members that have withdrawn at least one (1)
26 year in advance of the noticed effective date of withdrawal;
27 provided that:

28 15.2.1 TANC shall have one hundred eighty (180) days,

1 from written notice given pursuant to Section 15.5, to
2 exercise a right of first refusal to any rights, interests,
3 and obligations in the Project (in whole or in part) which a
4 former Member that has withdrawn determines to sell,
5 transfer, assign, or otherwise dispose of pursuant to a bona
6 fide written offer. In the event that any former Member
7 that has withdrawn ceases to exist as a public agency, as
8 defined in Section 6500 of the California Government Code,
9 then all rights, interests, and obligations of such former
10 Member in the Project which were derived through TANC shall,
11 at TANC's option, revert to TANC in exchange for TANC
12 assuming such former Member's remaining obligations in the
13 Project; provided, that such former Member that has
14 withdrawn has not sold, assigned, or otherwise disposed of
15 its rights, interests, and obligations prior to the date
16 such Member ceases to exist as a public agency; provided
17 further, that any former Member that has withdrawn has the
18 right to sell, assign, or otherwise dispose of its rights,
19 interests, and obligations to anyone as long as the sale
20 does not violate the provisions of Section 6.4.

21 15.2.2 Former Members who have withdrawn shall have a
22 right of first refusal in any right or interest in the
23 Project (in whole or in part) which TANC or a TANC Member
24 determines to sell, transfer or assign to a non-Member. The
25 rights and obligations of former Members who have withdrawn
26 with respect to layoffs of Transfer Capability shall be as
27 prescribed in Section 7 of this Agreement;

28 15.2.3 Except as provided in this Section 15, a

1 withdrawal shall have no adverse effect on the rights and
2 obligations under the MOU of TANC, its Members, and other
3 former Members who have withdrawn, as those rights and
4 obligations exist on the date of execution of this
5 Agreement;

6 15.2.4 A former Member who has withdrawn shall meet
7 its pro rata share of TANC's layoff obligations under
8 Section 7.3 of this Agreement; and

9 15.2.5 Neither the withdrawal of a Member from TANC
10 nor the conversion of its Participation Percentage of TANC's
11 entitlement to Transfer Capability to an undivided ownership
12 interest in the Project pursuant to Section 15.1 shall
13 relieve such Member of any of its obligations to make
14 payments with respect to Debt Service on TANC Project
15 Indebtedness at the times and in the amounts specified in
16 Section 4.1.3.2, as though such conversion had not occurred,
17 including any amounts due thereunder as a result of an
18 increase in such Member's Participation Percentage pursuant
19 to Sections 2.3, 3.1.2.2, and 6.2. In addition, neither
20 shall such action relieve the withdrawing Member of any of
21 its obligations pursuant to Section 6.4, nor affect the
22 rights of TANC to pursue its remedies under Section 6
23 against such former Member who has withdrawn.

24 15.2.6 Prior to withdrawal and conversion pursuant to
25 this Section 15, a withdrawing Member shall execute such
26 instruments and take such actions as TANC may reasonably
27 request to protect the continuing rights of TANC in the
28 interest transferred as set forth in this Agreement.

1 15.3 Inclusion in Intertie Agreements - Implementation of
2 this Section 15 is subject to the provisions of all applicable
3 Intertie Agreements. TANC shall make best efforts to include in
4 all applicable Intertie Agreements, as necessary, provisions to
5 recognize and authorize the rights and obligations of TANC and
6 Members who may elect to withdraw under this Section 15.

7 15.4 No Right to Partition - Each Member waives any rights
8 it may have to partition TANC's ownership interest in the Project
9 and agrees not to seek or to file any action in law or in equity
10 to partition such interest. The Members agree that their sole
11 right and procedure to obtain an ownership interest in the
12 Project separate and apart from TANC is pursuant to this
13 Section 15.

14 15.5 Notice - Pursuant to the provisions of Section 15.2,
15 any former Member who has withdrawn shall have the obligation to
16 notify TANC and all other former Members who have withdrawn of
17 its intent to sell, transfer, or assign its interest in the
18 Project (in whole or in part).

19 15.6 Inclusion in Subsequent Project Agreements - Unless
20 otherwise agreed by the Members, the provisions of this
21 Section 15 shall be included in any subsequent TANC "project
22 agreement" (as that term is defined in the Joint Powers
23 Agreement) pertaining to the subject matter hereof.

24 15.7 Adjustment of Participation Percentages - Except as
25 otherwise provided in Section 15.2.5, upon the withdrawal of a
26 Member and conversion of its Participation Percentage to an
27 undivided ownership interest pursuant to this Section 15, the
28 Participation Percentage of each remaining Member which has not

1 so withdrawn and converted shall be automatically increased to
2 the ratio between such remaining Member's Participation
3 Percentage and the aggregate of the Participation Percentages of
4 all such remaining Members, expressed as a percentage.
5

6 16. ASSIGNMENT OF AGREEMENT

7 16.1 No Assignment While TANC Project Indebtedness

8 Outstanding - This Agreement shall inure to the benefit of and
9 shall be binding upon the respective successors and assigns of
10 the parties to this Agreement; provided, however, that, except as
11 provided in Sections 4.1.3.7, 7.2.2, 7.3.2, and 15, neither this
12 Agreement nor any right or interest herein shall be transferred
13 or assigned by any party hereto so long as any TANC Project
14 Indebtedness is outstanding.

15 16.2 Assignment Prior to Withdrawal - Unless a Member has
16 withdrawn from TANC pursuant to Section 15 of this Agreement, any
17 assignment, in whole or in part, of a Member's Participation
18 Percentage or individual ownership interest to a person or entity
19 which is not a member of TANC is subject to paragraph 19 of the
20 Joint Powers Agreement.
21

22 17. MEMBERS' OBLIGATIONS SEVERAL

23 The obligation of each Member to make payments under this
24 Agreement is a several obligation and not a joint obligation with
25 those of the other Members.
26

27 18. TRUSTEE AS A THIRD PARTY BENEFICIARY

28 The parties agree that, among other things, this Agreement

1 is also made and entered into for the benefit of the Trustee
2 under each Indenture and the holders of outstanding TANC Project
3 Indebtedness, as third-party beneficiaries, and the Trustee and
4 such holders shall have the right, as third-party beneficiaries,
5 to initiate and maintain suit to enforce this Agreement to the
6 extent provided in any Indenture. Except as provided in this
7 Section 18, no rights or benefits shall be created in any person
8 or entity not a party to this Agreement.
9

10 19. APPENDICES

11 This Agreement includes Appendices A, B, C, D, and E
12 attached hereto and incorporated herein by this reference.
13

14 20. WAIVER

15 Any waiver at any time by any party of its rights with
16 respect to a default under this Agreement, or with respect to any
17 other matters arising in connection with this Agreement, shall
18 not be deemed a waiver with respect to any subsequent default or
19 other matter.
20

21 21. CAPTIONS

22 Except as used for definitions, all indexes, titles, subject
23 headings, section titles and similar items are provided for the
24 purpose of reference and convenience and are not intended to be
25 inclusive, definitive or to affect the meaning or scope of this
26 Agreement.
27

28 22. BILLING AND PAYMENT

1 22.1 Unless otherwise agreed by the Members and TANC, the
2 accounting and billing period shall be one (1) calendar month.
3 Monthly bills sent to a Member shall be sent by United States
4 mail first class, postage prepaid or its equivalent, to the
5 billing address specified in Appendix E. The designation of any
6 person specified in Appendix E may be changed at any time by
7 advance notice given to all Members not then in default and the
8 TANC Coordinator.

9 22.2 Billings for amounts payable shall be due on the
10 twenty-fifth (25th) day after mailing of the bill. Payment shall
11 be made at offices designated by the party to which payment is
12 due. If the due date falls on a non-business day of either
13 party, then the payment shall be due on the next following
14 business day without interest.

15 22.3 Amounts of monthly billings not paid on or before the
16 due date shall be payable with an Interest Charge calculated from
17 the due date to the date of payment.

18 22.4 In case any portion of any monthly bill is in dispute,
19 the entire bill shall be paid when due. Any excess amount of
20 payments made pursuant to monthly billings, which through
21 inadvertent error or as a result of a dispute may have been
22 overpaid, as determined by whatever means the parties select to
23 resolve the dispute, shall be returned by the owing party upon
24 determination of the correct amount in accordance with the
25 Intertie Agreements. If the amount owing exceeds five hundred
26 dollars (\$500.00) and is more than three (3) months past due, it
27 shall be returned with interest at the rate for an Interest
28 Charge less two (2) percent.

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2 23. DISTRIBUTION OF ASSETS

3 Notwithstanding anything to the contrary contained in
4 Section 21 of the Joint Powers Agreement, but subject in all
5 events to the provisions of the Intertie Agreements, in the event
6 the Project terminates, subject to Section 16 TANC shall
7 distribute to all Members not then in default TANC's share of the
8 proceeds of the sale, transfer, or other disposition of any
9 assets acquired in connection with the Project, and all of its
10 right, title, and interest therein as a Participant. Such
11 distribution shall be in proportion to the Participation
12 Percentages of such Members then in effect. No such distribution
13 shall occur so long as any TANC Project Indebtedness remains
14 outstanding.

15
16 24. COUNTERPARTS

17 This Agreement may be executed in several counterparts, each
18 of which shall be deemed to be an original and all of which, when
19 taken together, shall constitute a single Agreement.

20
21 25. SIGNATURES

22 In witness whereof, the parties have caused this Project
23 Agreement No. 3 to be executed as of the date first above
24 written. The signatories to this Project Agreement No. 3
25 represent that they have been appropriately authorized to enter
26 into this Project Agreement No. 3 on behalf of the party for whom
27 they sign.

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CITY OF ALAMEDA

By: _____
Name: _____
Title: _____
Date: _____

CITY OF HEALDSBURG

By: _____
Name: _____
Title: _____
Date: _____

CITY OF LODI

By: _____
Name: _____
Title: _____
Date: _____

CITY OF LOMPOC

By: _____
Name: _____
Title: _____
Date: _____

MODESTO IRRIGATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

CITY OF PALO ALTO

By: _____
Name: _____
Title: _____
Date: _____

CITY OF REDDING

By: _____
Name: _____
Title: _____
Date: _____

CITY OF ROSEVILLE

By: _____
Name: _____
Title: _____
Date: _____

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SACRAMENTO MUNICIPAL UTILITY DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

CITY OF SANTA CLARA

By: _____
Name: _____
Title: _____
Date: _____

TURLOCK IRRIGATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

CITY OF UKIAH

By: _____
Name: _____
Title: _____
Date: _____

**PLUMAS-SIERRA RURAL ELECTRIC
COOPERATIVE**

By: _____
Name: _____
Title: _____
Date: _____

**TRANSMISSION AGENCY OF NORTHERN
CALIFORNIA**

By: _____
Name: _____
Title: _____
Date: _____

APPENDIX A

MEMORANDUM OF UNDERSTANDING CALIFORNIA-OREGON TRANSMISSION PROJECT

This Memorandum of Understanding (MOU) is entered into as of the 19th day of December, 1984 by (1) the CITY OF ANAHEIM (Anaheim), CITY OF AZUSA (Azusa), CITY OF BANNING (Banning), CITY OF COLTON (Colton), CITY OF RIVERSIDE (Riverside), and CITY OF VERNON (Vernon) collectively referred to as "Southern California Public Agencies"; (2) CALIFORNIA DEPARTMENT OF WATER RESOURCES (CDWR); (3) PACIFIC GAS AND ELECTRIC COMPANY (PG&E) SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E), and SOUTHERN CALIFORNIA EDISON COMPANY (SCE), collectively referred to as "Investor-Owned Utilities"; (4) the WESTERN AREA POWER ADMINISTRATION (Western); and (5) the TRANSMISSION AGENCY OF NORTHERN CALIFORNIA (Agency) (composed of the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, the Plumas-Sierra Rural Electric Cooperative, the Sacramento Municipal Utility District, the Modesto Irrigation District, and the Turlock Irrigation District), hereinafter sometimes referred to individually as "Participant" and collectively as "Participants", and the LOS ANGELES DEPARTMENT OF WATER AND POWER ("LADWP"), representing itself and the Cities of Glendale, Burbank and Pasadena, a non-voting member of the Management Committee.

Recitals

WHEREAS, the Agency, the Investor-Owned Utilities, CDWR and Western, have carried out studies related to possible alternative methods of developing additional transmission facilities between California and the Pacific Northwest, and

WHEREAS, Public Law 98-360 and the Conference Report on H.R. 5653 authorize the Secretary of Energy (Secretary) to participate with non-federal entities in developing the California-Oregon Transmission Project (Project) by upgrading

certain facilities and authorize the Secretary to construct or participate in the construction of such additional facilities as he deems necessary to allow mutually beneficial power sales between the Pacific Northwest and California, and to accept and use funds contributed by non-federal entities, including investor-owned and publicly owned utilities, for that purpose, and

WHEREAS, pursuant to the mandate set forth in the Conference Report on H.R. 5653 and Public Law 98-360, the Secretary is directed to enter into negotiations with all interested non-federal entities for the financing, planning and construction of a new 500-kV AC line and associated facilities, and

WHEREAS, the Secretary has met with the Participants and others and has conferred in and observed the negotiation of this MOU by the Participants, and

WHEREAS, the Agency, the Southern California Public Agencies, the Investor-Owned Utilities, Western and the CDWR have all participated in the negotiations and in the development of the Project, and

WHEREAS, the Project, when constructed, will parallel in part the DC line between California and the Pacific Northwest, and the operation of the Project may affect the operation of the DC line, and for that reason, the Participants have invited LADWP, the operator of the DC line, to be a member of the Management Committee to the extent set forth in this MOU, and

WHEREAS, the Project has been evaluated from the technical viewpoint and has been found to be technically feasible, and

WHEREAS, utilities in the Pacific Northwest and in California have determined that development of the Project will provide mutual benefits to their respective regions, and

WHEREAS, the Participants will develop the Project consistent with applicable environmental laws, in an expeditious manner, and

WHEREAS, in order to develop the Project in accordance with this MOU, the Participants intend to take all appropriate actions including the negotiation and execution of a definitive participation agreement, and other agreements as necessary, within nine months or as soon as practicable after execution hereof, and

WHEREAS, CDWR and the Participants have agreed to postpone the date upon which CDWR will first be entitled to exercise its rights to buy 6.25 percent of Project transfer capability, and

NOW THEREFORE, in order to expedite the signing of the Participation Agreement and other necessary agreements, the following Principles are hereby agreed to and shall be implemented in such agreements.

1.0 Scope of Project

1.1 The Project includes:

- 1.1.1 The construction of a new 500-kV AC transmission line from the California-Oregon border area to the Redding area.**
- 1.1.2 Reconstruction of an existing double circuit 230-kV AC line owned by Western to a single circuit 500-kV AC line from the Redding area to the Tracy Substation.**
- 1.1.3 Construction of a new 500-kV AC line from Tracy Substation to Tesla Substation.**
- 1.1.4 Construction of a 500-kV AC cross-tie from the Redding area to Round Mountain Substation or its vicinity, unless the Management Committee determines that such cross-tie is not needed.**
- 1.1.5 Construction of a 500-kV substation in the Redding area. The size, location, and configuration shall be as determined by the Management Committee.**

2.0 Associated Facilities

- 2.1** The Project does not include facilities south of the Tesla Substation, however, PGandE shall upgrade or improve portions of its transmission system between Tesla Substation and Midway Substation as necessary to provide firm power transfer capability to meet its obligations hereunder as set forth in Sections 2.2, 2.3 and 2.4.
- 2.2** PGandE shall provide firm bi-directional transmission service over its facilities between Tesla and Midway Substations for the Southern California Public Agencies, SCE and SDG&E in amounts equal to their respective transfer capabilities in the Project (whether obtained under Section 5 or Section 10) for the life of the Project. PGandE shall also provide up to 50 MW of firm bi-directional transmission service between Tesla and Midway Substations for transmission entitlement that may be assignable by SMUD pursuant to Section 9.0. PGandE shall not be obligated to provide firm transmission service in excess of 700 MW for power transmitted over Project facilities and SMUD's 50 MW of assignable entitlement, provided, that such transmission service shall be provided under reasonable rates, terms and conditions.
- 2.3** In addition to firm transmission service provided pursuant to Section 2.2, PGandE shall make available to the Agency for the life of the Project up to 300 MW of firm bi-directional transmission service between Tesla Substation and Midway (150 MW for the M-S-R San Juan Project, plus an additional 150 MW). The Agency shall, if requested to do so by PGandE, provide, in the form of a contribution in aid of construction, a reasonable and proportionate share of the capital required for increasing the transfer capability between Los Banos and Gates. Such

transfer capability is to be developed by PGandE and will be available for service no later than January 1, 1990 and shall be provided under reasonable rates, terms and conditions.

2.4 Project Participants agree to cooperate in developing suitable transmission facilities to deliver power transmitted over the Project to the Participants, or to provide acceptable firm transmission service arrangements for such power under reasonable rates, terms and conditions.

2.5 SCE agrees to provide firm bi-directional transmission service between Midway Substation and the Southern California Public Agencies of power available over the Project's facilities, consistent with the provisions of applicable individual integrated operating agreements and settlement agreements between such agencies and SCE or any successor agreements. If SCE and any such agency cannot agree upon the terms and conditions of such a firm transmission service agreement hereunder, SCE will make a unilateral filing with the FERC of such a firm transmission service agreement under Section 205 or 206 of the Federal Power Act and pursuant to the FERC's rules and regulations promulgated thereunder.

3.0 Project Rating Interconnection and Operation

3.1 The Project shall be designed to have a minimum transfer capability of 1600 MW including loop flow from the California-Oregon border to the Tesla Substation and a minimum of 1900 MW of transfer capability from the Redding Substation to the Tracy Substation. The actual Project transfer capability will be determined from time to time by the Management Committee based on studies. The Management Committee has the right to review and approve all modifications to the Project, provided

that any modification which materially affects the transmission system of a Participant shall require the prior approval of such Participant.

3.2 The Project shall be interconnected and operated in parallel with the existing AC Intertie facilities.

3.3 The Participants shall enter into appropriate contractual arrangements:

3.3.1 With Northwest utilities to interconnect the Project with the Pacific Northwest transmission system such that access is available to a wide spectrum of utilities in the Pacific Northwest and Canada. Agreement shall be among the Participants and Northwest utilities.

3.3.2 With PGandE and Western for interconnections between the Project and Western and PGandE systems, including provisions governing the ownership of new facilities in existing substations.

3.3.3 Providing that each Participant shall have a right to displace Northwest imports scheduled by other Participants over the Project for delivery and use within a control area at times when any Participant in such control area is in a spill condition or at minimum generation, provided that displacement energy is delivered to the Participant whose energy is being displaced at a cost including penalties, if any, at or below the price of the displaced Northwest imports.

3.3.4 For the interconnection and parallel operation of the Project with existing AC Intertie facilities. Such arrangements shall also provide for integration of the Project with the existing AC Intertie System, including pro rata sharing of available

transfer capability under outage and curtailment conditions, including curtailments due to loop flow.

3.4 PGandE shall be the operating agent for operation and maintenance of the Project, with operation and maintenance costs to be shared by Project Participants in proportion to their respective allocations under these Principles. PGandE shall coordinate with Western on the operations and maintenance on the Redding to Tracy portion of the Project.

3.5 All Participants who receive transfer capability from the Project shall coordinate schedules with PGandE.

4.0 Project Management

4.1 A Management Committee, chaired by a representative of the Agency, is hereby formed to oversee and approve the planning, design, construction, operation and maintenance of the Project. Each Participant in the Project shall have representation on the Management Committee, with the members of the Agency being represented by the Agency and the Southern California Public Agencies being represented by one Participant of their choice. All actions or decisions by the Management Committee shall be by agreement of at least 75 percent interest of the voting Participants, based on Project Participation shares between the California-Oregon border area and Tesla Substation. Subcommittees shall be formed as needed to address specific aspects of the Project. CDWR, prior to exercise of rights under Section 8.1, and LADWP shall also have non-voting representation on the Management Committee. Each Participant, including each of the members of the Agency and each of the Southern California Public Agencies, shall be given advance notification of all meetings of the Management Committee and may attend meetings.

- 4.2 Western shall be the lead agency for the NEPA process and the Agency shall be the lead agency for the CEQA process. All Participants agree to cooperate and support the processes necessary to obtain all necessary permits from regulatory agencies having jurisdiction.
- 4.3 The Agency shall be the overall Project Manager. Western, under contract to the Participants, shall be responsible for design and construction of the upgraded Western facilities, including the proposed Redding Substation. The Agency and/or PGandE, under contract to the Participants, shall be responsible for design and construction of all Project facilities other than Western upgraded facilities.
- 4.4 In exercising its non-voting representation on the Management Committee, LADWP may represent the ownership interests of itself, Burbank, Glendale and Pasadena in the DC line only as to discussions relating to operation of the DC line, and its representation shall be limited to offering non-binding suggestions as to planning, construction, and operation of the Project, and advising the Committee as to problems which may arise through operation of the Project in parallel with the DC line.

5.0 Project Participation Shares

- 5.1 The Participants shall be entitled to Project transfer capability between the California-Oregon border area and Tesla Substation prior to January 1, 2005, in the following proportions:
- 5.1.1 The Agency shall be entitled to 43.75 percent.
 - 5.1.2 The Investor-Owned Utilities shall be entitled to 42.19 percent.
 - 5.1.3 The Southern California Public Agencies shall be entitled to 7.81 percent.

- 5.1.4 Western for DOE laboratories and federal wildlife refuges shall be entitled to 6.25 percent.
- 5.2 If CDWR exercises its rights and purchases its share of the Project pursuant to Section 8.1, then the Participants shall be entitled to Project transfer capability between the California-Oregon border area and Tesla Substation commencing on January 1, 2005, in the following proportions:
- 5.2.1 The Agency shall be entitled to 40.83 percent.
- 5.2.2 The Investor-Owned Utilities shall be entitled to 39.38 percent.
- 5.2.3 The Southern California Public Agencies shall be entitled to 7.29 percent.
- 5.2.4 Western for DOE laboratories and federal wildlife refuges, shall be entitled to 6.25 percent.
- 5.2.5 The CDWR shall be entitled to 6.25 percent.
- 5.3 If CDWR elects not to exercise its rights to purchase Project transfer capability pursuant to Section 8.1, then the Participants shall continue to be entitled to Project transfer capability in the same percentages as specified in Section 5.1.
- 5.4 The Project transfer capability specified to Western in Sections 5.1, 5.2, and 5.3, is to serve DOE laboratories and federal wildlife refuges unless they make other arrangements with Western or other Participants. In addition, Western shall be provided the following transfer capability in Project facilities between the Redding Substation and Tracy Substation:
- 5.4.1 300 MW under all operating conditions, with back up service provided by PGandE pursuant to Contract 14-06-200-2948A (Contract 2948A).

5.4.2 Up to an additional 300 MW (above 1900 MW), to the extent that such transfer capability is available from the Project.

5.5 During construction of the Project, to the extent transmission capacity is available, PGandE will accept CVP power at any point of interconnection between PGandE and Western for delivery to PGandE or to Western loads served from PGandE's system pursuant to Contract 2948A. Any incremental costs incurred by Western because of the outage of its facilities during construction, including wheeling charges paid to PGandE, shall be deemed to be a Project cost.

6.0 Project Financing Responsibility

6.1 Prior to the effective date of any election by CDWR to exercise its rights pursuant to Section 8.1 and unless otherwise agreed pursuant to Section 6.3, the Participants shall be responsible for financing the Project and betterments in the following proportions:

6.1.1 The Agency, 46.67 percent (approximately 700/1500);

6.1.2 The Investor-Owned Utilities, 45.00 percent (approximately 675/1500);

6.1.3 The Southern California Public Agencies, 8.33 percent (approximately 125/1500).

6.2 Subsequent to the effective date of election by CDWR to exercise its rights pursuant to Section 8.1, and unless otherwise agreed pursuant to Section 6.3, the Participants shall be responsible for any capital betterments for the Project in the following proportions:

6.2.1 The Agency, 43.55 percent;

6.2.2 The Investor-Owned Utilities, 42.00 percent;

6.2.3 The Southern California Public Agencies, 7.78 percent;

6.2.4 CDWR, 6.67 percent.

- 6.3 A Participant may agree to assume (in part or whole) financing responsibility for another Participant's share. Such assumption shall not alter the Project Participation shares in Section 5.

7.0 Project Ownership

- 7.1 Except as otherwise agreed by the Participants pursuant to Section 7.6, the Project, other than the upgraded Western facilities, shall be owned in the following proportions prior to January 1, 2005, and also thereafter, if CDWR does not exercise its rights pursuant to Section 8.1.
- 7.1.1 The Agency, 46.67 percent.
 - 7.1.2 The Investor-Owned Utilities, 45.00 percent.
 - 7.1.3 The Southern California Public Agencies, 8.33 percent.
- 7.2 If CDWR exercises its rights to purchase Project transfer capability pursuant to Section 8.1, then except as otherwise agreed by the Participants pursuant to Section 7.6, the Project (other than the upgraded Western facilities) shall be owned in the following proportions after January 1, 2005:
- 7.2.1 The Agency, 43.55 percent.
 - 7.2.2 The Investor-Owned Utilities, 42.00 percent.
 - 7.2.3 The Southern California Public Agencies, 7.78 percent.
 - 7.2.4 The CDWR, 6.67 percent.
- 7.3 Unless prohibited by law or unless otherwise agreed pursuant to Section 7.6, the upgraded Western facilities shall be owned in the following proportions prior to January 1, 2005:
- 7.3.1 The Agency, 36.84 percent (700/1900).
 - 7.3.2 The Investor-Owned Utilities, 35.53 percent (675/1900).
 - 7.3.3 The Southern California Public Agencies, 6.58 percent (125/1900).

- 7.3.4 Western, 21.05 percent (400/1900).
- 7.4 Unless prohibited by law or unless otherwise agreed pursuant to Section 7.6, the upgraded Western facilities shall be owned in the following proportions on and after January 1, 2005, if CDWR exercises its rights to purchase pursuant to Section 8.1.
- 7.4.1 The Agency, 34.39 percent (approximately 653/1900).
- 7.4.2 The Investor-Owned Utilities, 33.16 percent (approximately 630/1900).
- 7.4.3 The Southern California Public Agencies, 6.14 percent (approximately 117/1900).
- 7.4.4 Western, 21.05 percent (400/1900).
- 7.4.5 CDWR, 5.26 percent (100/1900).
- 7.5 If CDWR elects not to exercise its rights pursuant to Section 8.1, then the proportions owned on and after January 1, 2005, shall be as specified in Section 7.3.
- 7.6 A Participant may agree to assume ownership of all or part of another Participant's ownership share and provide firm transmission service to such other Participant in an amount that the Participant's ownership share plus transmission service hereunder shall equal the Participant's Project participation share in Section 5.

8.0 Rights for the California Department of Water Resources

- 8.1 Effective January 1, 2005, CDWR will have a right to buy pro rata from all Participants, except Western, 6.25 percent of the Project as the Project exists as of the date CDWR exercises its right. Unless another price is mutually agreed to by the selling Participant and CDWR, CDWR shall pay each selling Participant the original construction cost (including the original construction cost associated with

Western's entitlement), including the interest it incurred during construction, plus the original cost of capital improvements and betterments (including the original cost of capital improvements and betterments associated with Western's entitlement), including interest it incurred during construction, allocable to the respective pro rata share of the Project that the Participant is selling to CDWR. Within one year after the Project is energized, each Participant shall provide CDWR with a statement of the original construction cost (including the original construction cost associated with Western's entitlement), including the interest it incurred during construction for its share of the Project so that CDWR can determine the cost it shall be obligated to pay such Participant if it exercises its rights under this Section 8.1. Within one year after any capital improvements or betterments are completed prior to the date of exercise by CDWR, each Participant shall provide CDWR with a statement of construction costs incurred for such capital improvements, or betterments (including the original construction cost of capital improvements and betterments associated with Western's entitlement) including interest it incurred during construction with respect to its share, so that CDWR can determine the cost it shall be obligated to pay such Participant if it exercises its rights under this Section 8.1.

- 8.2 Subject to (1) satisfaction of Section 11.4 of this MOU as to participation of PGandE in the Project, (2) execution by CDWR of the participation agreement, and (3) construction of the Project, the term of the Extra High Voltage Contract, dated August 1, 1967, among CDWR, PGandE, SDG&E, and SCE, or the successor(s) in interest to SDG&E and SCE, shall be

extended for the useful life of the existing AC Intertie. Notwithstanding any terms to the contrary in the Extra High Voltage Contract, if the Parties cannot reach agreement on the rates that CDWR is to pay during the extended term of this contract, after 2004 PGandE, SCE, and SDG&E, or the successor(s) in interest to SDG&E and SCE, may unilaterally make application to FERC for a change in rates, under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder.

8.2.1 CDWR shall be considered a Participant for the purposes of Sections 3.3.3 and 10.4.

8.3 Upon exercise of CDWR's rights under Section 8.1, PGandE and SCE shall provide firm transmission capacity to deliver CDWR's 100 MW to Midway and Vincent Substations, under reasonable rates, terms, and conditions.

8.4 Except as provided in Section 8.2, nothing in this agreement shall modify or change CDWR's rights under the Extra High Voltage Agreement dated August 1, 1967.

9.0 The EHV Contract Between SMUD, PGandE, SCE, and SDG&E

9.1 PGandE, SCE, and SDG&E, pursuant to Article 33 of the August 1, 1967 contract entitled "Contract Between California Companies and Sacramento Municipal Utility District for Extra High Voltage Transmission and Exchange Service" between SMUD, PGandE, SCE, and SDG&E (EHV Contract), consent to an assignment by SMUD of up to 50 MW of SMUD's 200 MW entitlement pursuant to the EHV Contract to California publicly owned utilities on such terms as may be negotiated between SMUD and the California publicly owned utilities; provided, however that such terms shall be consistent with, shall not amend, and shall not

interfere with the performance of any rights or obligations under the EHV Contract. Such assignment may commence on January 1, 1985 and shall terminate on the earliest to occur of, (1) the date when the California-Oregon Transmission Project becomes operational, (2) the date when the participation of PGandE, SCE, and SDG&E is terminated because the approvals under Section 11.4 cannot be obtained or because those approvals are unsatisfactory to PGandE, SCE, and SDG&E, (3) the date when the Project is terminated prior to its operation, such termination to be deemed to have occurred on January 1, 1993, if no work has been done on the Project for three years prior to that date. Such an assignment shall not impair SMUD's right to utilize any assigned entitlement after termination of the assignment.

10.0 Layoff Arrangements

- 10.1 The Agency shall lay off on a firm basis 50 MW of Project transfer capability to the Southern California Public Agencies between 1990 and 1994. The Agency shall lay off on a firm basis 25 MW of Project transfer capability to the Southern California Public Agencies between 1995 and 1999.
- 10.2 The Agency shall lay off on a firm basis Project transfer capability to the Investor-Owned Utilities, as indicated below:

1990:	200 MW
1991:	175 MW
1992:	150 MW
1993:	125 MW
1994:	100 MW
1995:	75 MW
1996:	50 MW
1997:	25 MW
1998 and thereafter:	0 MW

- 10.3 Layoff of Project transfer capability pursuant to Sections 10.1 and 10.2 shall be sold at the cost of said transfer capability based on public financing plus contingencies of 25 percent. It is recognized that the layoff amounts set forth in Sections 10.1 and 10.2 will be converted to a percentage of the minimum design transfer capability of 1600 MW and applied to the actual transfer capability determined by the Management Committee.
- 10.4 An important goal of the Project is to benefit the Participants and their respective ratepayers, commensurate with the risks inherent in the Project. To the extent that any Participant does not need its Project transfer capability to meet the loads of its system (directly or by exchange) and its firm layoff requirement pursuant to Sections 10.1 and 10.2 hereunder, such remaining transfer capability shall be made available to the other Participants.
- 10.4.1 Long-term transfer capability is transfer capability for which a five-year advance notice is required. Short-term transfer capability is transfer capability for which less than five years notice is required.
- 10.4.2 Layoff transfer capability as specified in Section 10.4 shall be made available on a cost basis. Long-term transfer capability shall be offered at no less than the cost of transfer capability based on public financing plus contingencies of 25 percent. Short-term transfer capability shall be offered at no less than the cost of transfer capability based on public financing with no contingency adder.
- 10.4.3 If there are no Participants wishing to purchase either long-term or short-term

layoff at the applicable price pursuant to Section 10.4.2, then the selling Participant can use its excess transfer capability to deliver power to a Participant or to other entities under any terms and conditions or make its Project transfer capability available to others.

10.5 Nothing in Section 10.4 shall prevent any Participant from utilizing its Project transfer capability to transmit power to other Participants or entities in the Northwest.

11.0 Approval by the Secretary of Energy, Congress and other Governmental Agencies

If, after a public notice procedure and due deliberation by the Secretary, this MOU is adopted by the Secretary as the basis for development of the Project, the Participants agree as follows:

11.1 This MOU shall be submitted by the Secretary in his report to Congress, pursuant to Public Law 98-360.

11.2 The Participants shall support the passage of legislation in the form attached hereto as "Exhibit A", authorizing the implementation of the Project in accordance with this MOU. The Participants shall also support report language accompanying such legislation in the form attached as "Exhibit B", which determines that the plan for development and operation of the Project in accordance with this MOU is in the public interest.

11.3 Contracts among the Participants shall then be negotiated to implement these principles. As a condition of execution of any contracts implementing this MOU each Participant shall furnish the other Participants with a written Opinion of Counsel in which it is represented that said Participant has the authority to enter into such contracts and to be

bound by the terms and conditions thereof. In the case of Agency, each major member agency thereof shall furnish such Opinion of Counsel.

11.4 The contracts negotiated to implement these Principles shall be submitted to, and shall be subject to satisfactory approvals and permits of, local, state and federal governmental agencies having jurisdiction over the Participants to the contracts or the actions contemplated here.

11.5 If the conditions in Section 11.4 are not satisfied as to any Participant, without changes or new conditions unacceptable to such Participant, such Participant shall no longer be bound by any provision of this MOU.

12.0 Signature Clause

The signatories to this MOU represent that they have been appropriately authorized to enter into this MOU on behalf of the Party for whom they sign. This MOU may be executed in counterparts. This MOU is executed as of the 19th day of December, 1984.

(Seal)

CITY OF ANAHEIM

Attest

Leonora K. Sahl

By: 

Date: 1-8-85

APPROVED AS TO FORM:

Alan K. Watts
Special Counsel to City of Anaheim
Dated: 1-2-85

CITY OF AZUSA

By: _____

Date: _____

bound by the terms and conditions thereof. In the case of Agency, each major member agency thereof shall furnish such Opinion of Counsel.

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- 11.5 If the conditions in Section 11.4 are not satisfied as to any Participant, without changes or new conditions unacceptable to such Participant, such Participant shall no longer be bound by any provision of this MOU.

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The signatories to this MOU represent that they have been appropriately authorized to enter into this MOU on behalf of the Party for whom they sign. This MOU may be executed in counterparts. This MOU is executed as of the 19th day of December, 1984.

CITY OF ANAHEIM

By: _____
Date: _____

CITY OF AZUSA

By: Eugene F. Moses
Date: December 18, 1984

CITY OF BANNING

By: Fredrick Sinclair
Date: 12/19/84

CITY OF COLTON

By: _____
Date: _____

CITY OF RIVERSIDE

By: _____
Date: _____

CITY OF VERNON

By: _____
Date: _____

CALIFORNIA DEPARTMENT OF
WATER RESOURCES

By: _____
Date: _____

PACIFIC GAS AND ELECTRIC COMPANY

By: _____
Date: _____

CITY OF BANNING

By: _____
Date: _____

CITY OF COLTON

By:  _____
Date: 12-19-84 _____

CITY OF RIVERSIDE

By: _____
Date: _____

CITY OF VERNON

By: _____
Date: _____

**CALIFORNIA DEPARTMENT OF
WATER RESOURCES**

By: _____
Date: _____

PACIFIC GAS AND ELECTRIC COMPANY

By: _____
Date: _____

CITY OF BANNING

By: _____

Date: _____

CITY OF COLTON

By: _____

Date: _____

CITY OF RIVERSIDE

By: *W. Brown*

Date: January 18, 1985

APPROVED AS TO FORM
John Woodhead
CITY ATTORNEY

CITY OF VERNON

By: _____

Date: _____

CALIFORNIA DEPARTMENT OF
WATER RESOURCES

By: _____

Date: _____

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Date: _____

CITY OF BANNING

By: _____

Date: _____

CITY OF COLTON

By: _____

Date: _____

CITY OF RIVERSIDE

By: _____

Date: _____

**CITY OF VERNON
MAYOR**

By: *Stephen C. Williams*

Date: 12-18-84

**CALIFORNIA DEPARTMENT OF
WATER RESOURCES**

By: _____

Date: _____

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Date: _____

CITY OF BANNING

By: _____

Date: _____

CITY OF COLTON

By: _____

Date: _____

CITY OF RIVERSIDE

By: _____

Date: _____

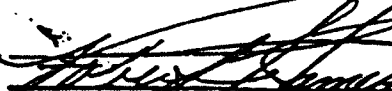
CITY OF VERNON

By: _____

Date: _____

CALIFORNIA DEPARTMENT OF
WATER RESOURCES

Approved as to legal form
and sufficiency:


Chief Counsel, Department
of Water Resources

By: David H. Kennedy

Date: 12-14-84

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Date: _____

CITY OF BANNING

By: _____

Date: _____

CITY OF COLTON

By: _____

Date: _____

CITY OF RIVERSIDE

By: _____

Date: _____

CITY OF VERNON

By: _____

Date: _____

CALIFORNIA DEPARTMENT OF
WATER RESOURCES

By: _____

Date: _____

PACIFIC GAS AND ELECTRIC COMPANY

By: *Barton T. Shook* *5/19*

Date: December 18, 1984

MEMORANDUM OF UNDERSTANDING
CALIFORNIA-OREGON TRANSMISSION PROJECT

SAN DIEGO GAS AND ELECTRIC COMPANY

By: R. W. Wood
Date: December 18, 1984

SOUTHERN CALIFORNIA EDISON COMPANY

By: _____
Date: _____

WESTERN AREA POWER ADMINISTRATION

By: _____
Date: _____

TRANSMISSION AGENCY OF
NORTHERN CALIFORNIA

By: _____
Date: _____

LOS ANGELES DEPARTMENT OF
WATER AND POWER

By: _____
Date: _____

SAN DIEGO GAS AND ELECTRIC COMPANY

By: _____

Date: _____

SOUTHERN CALIFORNIA EDISON COMPANY

By: *Edmund J. Humphrey*

Date: 12-18-84

WESTERN AREA POWER ADMINISTRATION

By: _____

Date: _____

**TRANSMISSION AGENCY OF
NORTHERN CALIFORNIA**

By: _____

Date: _____

**LOS ANGELES DEPARTMENT OF
WATER AND POWER**

By: _____

Date: _____

SAN DIEGO GAS AND ELECTRIC COMPANY

By: _____

Date: _____

SOUTHERN CALIFORNIA EDISON COMPANY

By: _____

Date: _____

WESTERN AREA POWER ADMINISTRATION

By: William H. Claggett *

Date: 19 Dec 84

*/ Subject to a public involvement proceeding
and, after consideration of public comments,
adoption of this MOU, as may be modified
based on such public comments, by the
Secretary of Energy.

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

By: _____

Date: _____

LOS ANGELES DEPARTMENT OF WATER AND POWER

By: _____

Date: _____

SAN DIEGO GAS AND ELECTRIC COMPANY

By: _____

Date: _____

SOUTHERN CALIFORNIA EDISON COMPANY

By: _____

Date: _____

WESTERN AREA POWER ADMINISTRATION

By: _____

Date: _____

**TRANSMISSION AGENCY OF
NORTHERN CALIFORNIA**

By:  _____

Date: 12-19-64

**LOS ANGELES DEPARTMENT OF
WATER AND POWER**

By: _____

Date: _____

SAN DIEGO GAS AND ELECTRIC COMPANY

By: _____
Date: _____

SOUTHERN CALIFORNIA EDISON COMPANY

By: _____
Date: _____

WESTERN AREA POWER ADMINISTRATION

By: _____
Date: _____

TRANSMISSION AGENCY OF
NORTHERN CALIFORNIA

By: _____
Date: _____

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES

By

BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES

By _____
and _____ Secretary

APPROVED AS TO FORM AND LEGALITY
IDA REIMER, CITY ATTORNEY

1984
R. L. Wesson
RALPH CLY WESSON
Assistant City Attorney

AUTHORIZED BY RES. 85 123
JAN 10 1985

"Exhibit A"

Suggested Legislation

The Secretary of Energy is authorized to cause the construction of a third AC transmission line from the Pacific Northwest to California in accordance with a Memorandum of Understanding submitted by the Secretary pursuant to Public Law 98-360.

"Exhibit B"

**Suggested Report Language in Appropriations
Legislation in Both Houses or Conference**

The Secretary has, pursuant to Public Law 98-360, reported a conceptual plan for construction of the line, which is described in detail in a Memorandum of Understanding signed by most of the privately and publicly owned utilities in California. The plan for development and operation of the new 500-kV AC line and associated facilities described in the Memorandum is in the public interest and will benefit the electric consumers of the Pacific Northwest and Southwest. Accordingly, the Secretary is instructed to work with the California utilities and proceed with development and operation of the Project in accordance with the Memorandum.

APPENDIX B

CONFORMED COPY

**CALIFORNIA-OREGON
TRANSMISSION PROJECT
MEMORANDUM OF UNDERSTANDING
ANNEX**

CONFIRMED COPY

CONFIRMED COPY

CALIFORNIA-OREGON TRANSMISSION PROJECT

MEMORANDUM OF UNDERSTANDING ANNEX

Among

City of Anaheim

City of Azusa

City of Banning

City of Colton

City of Riverside

City of Vernon

California Department of Water Resources

Los Angeles Department of Water and Power

Pacific Gas and Electric Company

San Diego Gas & Electric Company

Southern California Edison Company

Transmission Agency of Northern California

Western Area Power Administration

Carmichael Water District

El Dorado Hills Community Services District

San Juan Suburban Water District

Shasta Dam Area Public Utility District

Southern San Joaquin Valley Power Authority

Trinity County Public Utility District

March 19, 1986

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MEMORANDUM OF UNDERSTANDING ANNEX
CALIFORNIA-OREGON TRANSMISSION PROJECT

This Memorandum of Understanding Annex ("MOU Annex") shall be effective as of February 22, 1986, and is entered into by the City of Anaheim (Anaheim), City of Azusa (Azusa), City of Banning (Banning), City of Colton (Colton), City of Riverside (Riverside), City of Vernon (Vernon), collectively referred to as "Southern California Public Agencies"; California Department of Water Resources (CDWR); Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric Company (SDG&E), and Southern California Edison Company (SCE), collectively referred to as "Investor-Owned Utilities"; the Western Area Power Administration (Western); the Transmission Agency of Northern California (Agency), a joint powers agency composed of the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, the Plumas-Sierra Rural Electric Cooperative, the Sacramento Municipal Utility District, the Modesto Irrigation District, and the Turlock Irrigation District; hereinafter sometimes referred to individually as "Current Participant" and collectively as "Current Participants"; the Los Angeles Department of Water and Power (LADWP), representing itself and the Cities of Glendale, Burbank, and Pasadena, a non-voting member of the Management Committee; and Southern San Joaquin Valley Power Authority (South San Joaquin), a joint powers agency; Trinity County Public Utility District (Trinity); Shasta Dam Area Public Utility District (Shasta); San Juan Suburban Water District (San Juan);

1 El Dorado Hills Community Services District (El Dorado); and
2 Carmichael Water District (Carmichael), hereinafter sometimes
3 referred to individually as "Additional Participant" and
4 collectively as "Additional Participants."

5
6 RECITALS

7 WHEREAS, the Current Participants, along with LADWP, have
8 executed the Memorandum of Understanding, California-Oregon
9 Transmission Project dated December 19, 1984 ("MOU"), and the
10 Current Participants, except for CDWR, have executed a
11 Supplemental Letter Agreement to the MOU, the Interim Cost
12 Sharing Agreement effective April 1, 1985, and the Project
13 Development Agreement ("PDA") effective September 30, 1985, for
14 the purpose of developing the California-Oregon Transmission
15 Project ("Project"), and

16 WHEREAS, the Secretary of Energy, by his Memorandum of
17 Decision ("MOD") of February 7, 1985 approved the MOU subject to
18 the modifications and conditions set forth in the MOD, which MOD
19 has been clarified by the May 4, 1985 letter from the Acting
20 General Counsel of the Department of Energy; and

21 WHEREAS, certain non-federal public entities were, under
22 terms and conditions specified by Western in 50 Fed. Reg.
23 31912 (1985), allocated entitlements within the 3.125 per cent of
24 Project transfer capability reserved to them by the Secretary of
25 Energy, which non-federal public entities and their allocated
26 entitlements are set out at 50 Fed. Reg. 42769 (1985), and

27 WHEREAS, such non-federal public entities, designated as
28 the Additional Participants, as one condition of receiving and

1 using such entitlement must sign an agreement with the Current
2 Participants by which they assume all appropriate obligations and
3 become entitled to all applicable rights and benefits of the
4 Project defined to date.

5 NOW, THEREFORE, the Additional Participants, the Current
6 Participants, and LADWP agree as follows:

7
8 **1. DEFINITIONS AND CATEGORIES OF PARTICIPANTS**

9 **1.1** For purposes of this MOU Annex, a "Participant" is
10 an entity having the obligations, rights and
11 benefits of a Participant as that term is used in
12 the MOU, the Supplemental Letter Agreement, the
13 Interim Cost Sharing Agreement, the PDA and any
14 other agreement related to the Project which has
15 been signed by all or substantially all the
16 Current Participants and Additional Participants.

17 **1.2** A Nonutility Participant is any Additional
18 Participant which (1) is not a public electric
19 utility regulated under applicable state law or
20 the Federal Power Act or exempted from such
21 regulation by reason of being a public entity, or
22 (2) does not have public utility responsibilities
23 with regard to serving electric power to
24 customers. Nonutility Participants have the same
25 rights, obligations and benefits as Participants
26 except as provided in Section 2.2 below. As of
27 the effective date of this Agreement, the
28 Nonutility Participants are South San Joaquin, San

1 Juan and Carmichael. Nothing contained herein
2 shall preclude a Nonutility Participant from
3 changing its status at a later date, to no longer
4 be a Nonutility Participant.

5
6 2. ASSUMPTION OF OBLIGATIONS AND RIGHTS

7 2.1 Each Additional Participant agrees to and is bound
8 hereby by all provisions, terms and conditions of
9 the MOU as modified by the MOD of the United
10 States Secretary of Energy, dated February 7,
11 1985, as interpreted by the letter of the United
12 States Department of Energy Acting General
13 Counsel, dated May 4, 1985, and as such MOU may be
14 further amended, the Supplemental Letter
15 Agreement, the Interim Cost Sharing Agreement and
16 the PDA, all as modified by this MOU Annex, as if
17 each Additional Participant had duly executed such
18 agreement.

19 2.2 In accordance with the May 4, 1985 letter from the
20 Acting General Counsel of the Department of
21 Energy, which provides in part that the Secretary
22 of Energy's MOD was not intended to impose a
23 precedent for wheeling to end-users, Section 2.4
24 of the MOU and Sections 34.3 and 34.4 of the PDA,
25 which implement Section 2.4 of the MOU, shall not
26 be applicable to Nonutility Participants.
27 Section 10.5 of the MOU shall not be applicable to
28 any Nonutility Participant.

1 3. PROJECT MANAGEMENT

2 The following is substituted for and replaces Section 4.1
3 of the MOU:

4 "4.1 A Management Committee, chaired by a
5 representative of the Agency, is hereby formed to
6 oversee and approve the planning, design,
7 construction, operation and maintenance of the
8 Project. Each Participant in the Project shall
9 have representation on the Management Committee,
10 with the members of the Agency being represented
11 by the Agency, and the Southern California Public
12 Agencies being represented by one Participant of
13 their choice, and each Additional Participant
14 being jointly represented by one Additional
15 Participant, provided that any Additional
16 Participant may designate instead a Current
17 Participant's Management Committee Representative
18 to represent it on the Management Committee. All
19 actions or decisions by the Management Committee
20 shall be by agreement of at least 75 percent
21 interest of the Participants entitled to vote
22 based on Project Participation shares between the
23 California-Oregon border area and Tesla
24 Substation, as expressed in Section 5. A
25 Management Committee Representative who represents
26 more than one Participant shall separately vote
27 the interests of each Participant represented.
28 Subcommittees shall be formed as needed to address

1 specific aspects of the Project. CDWR, prior to
2 exercise of rights under Section 8.1, and LADWP
3 shall also have non-voting representation on the
4 Management Committee. Each Participant, including
5 each of the Southern California Public Agencies
6 and each of the Additional Participants, and each
7 of the members of the Agency, shall be given
8 advance notification of all meetings of the
9 Management Committee and may attend meetings."

10
11 4. MEMORANDUM OF UNDERSTANDING--PROJECT PARTICIPATION SHARES

12 4.1 The following is substituted for and replaces
13 Section 5.1 of the MOU:

14 "5.1 The Participants shall be entitled to
15 Project transfer capability between the
16 California-Oregon border area and Tesla
17 Substation prior to January 1, 2005, in
18 the following proportions:

19 5.1.1 The Agency shall be entitled
20 to 42.2916 percent;

21 5.1.2. The Investor-Owned Utilities
22 shall be entitled to 40.7837
23 percent;

24 5.1.3 The Southern California Public
25 Agencies shall be entitled to
26 7.5497 percent;

27 5.1.4 Western for DOE laboratories
28 and federal wildlife refuges

shall be entitled to 6.2500 percent;

5.1.5 South San Joaquin shall be entitled to 2.0625 percent;

5.1.6 Trinity shall be entitled to .3125 percent;

5.1.7 Shasta shall be entitled to .4375 percent;

5.1.8 San Juan shall be entitled to .0625 percent;

5.1.9 El Dorado shall be entitled to .1875 percent;

5.1.10 Carmichael .0625 percent."

4.2 The following is substituted for and replaces Section 5.2 of the MOU:

"5.2 If CDWR exercises its rights and purchases its share of the Project in accordance with Section 8.1 of the MOU, then the Participants shall be entitled to Project transfer capability between the California-Oregon border area and Tesla Substation commencing on January 1, 2005, in the following proportions:

5.2.1 The Agency shall be entitled to 39.4690 percent;

- 1 5.2.2 The Investor-Owned Utilities
2 shall be entitled to 38.0673
3 percent;
4 5.2.3 The Southern California Public
5 Agencies shall be entitled to
6 7.0470 percent;
7 5.2.4 Western for DOE laboratories
8 and federal wildlife refuges
9 shall be entitled to 6.2500
10 percent;
11 5.2.5 South San Joaquin shall be
12 entitled to 2.0625 percent;
13 5.2.6 Trinity shall be entitled to
14 .3125 percent;
15 5.2.7 Shasta shall be entitled to
16 .4375 percent;
17 5.2.8 San Juan shall be entitled to
18 .0625 percent;
19 5.2.9 El Dorado shall be entitled to
20 .1875 percent;
21 5.2.10 Carmichael shall be entitled
22 to .0625 percent;
23 5.2.11 The CDWR shall be entitled to
24 6.0417 percent."
25
26
27
28

1 5. MEMORANDUM OF UNDERSTANDING--PROJECT FINANCING

2 RESPONSIBILITY

3 5.1 The following is substituted for and replaces
4 Section 6.1 of the MOU:

5 "6.1 Prior to the effective date of any
6 election by CDWR to exercise its rights
7 in accordance with Section 8.1 of the
8 MOU and unless otherwise agreed in
9 accordance with Section 6.3 of the MOU,
10 the Participants, shall be responsible
11 for financing the Project and
12 betterments in the following
13 proportions:

14 6.1.1 The Agency, 45.1110 percent;

15 6.1.2 The Investor-Owned Utilities,
16 43.5026 percent;

17 6.1.3 The Southern California Public
18 Agencies, 8.0530 percent;

19 6.1.4 South San Joaquin, 2.2000
20 percent;

21 6.1.5 Trinity, .3333 percent;

22 6.1.6 Shasta, .4667 percent;

23 6.1.7 San Juan, .0667 percent;

24 6.1.8 El Dorado, .2000 percent;

25 6.1.9 Carmichael, .0667 percent."

26 5.2 The following is substituted for and replaces
27 Section 6.2 of the MOU:
28

1 "6.2 Subsequent to the effective date of
2 election by CDWR to exercise its rights
3 in accordance with Section 8.1 of the
4 MOU, and unless otherwise agreed in
5 accordance with Section 6.3 of the MOU,
6 the Participants, shall be responsible
7 for any capital betterments for the
8 Project in the following proportions:

9 6.2.1 The Agency, 42.1002 percent;

10 6.2.2 The Investor-Owned Utilities,
11 40.6052 percent;

12 6.2.3 The Southern California Public
13 Agencies, 7.5168 percent;

14 6.2.4 The CDWR, 6.4444 percent;

15 6.2.5 South San Joaquin, 2.2000
16 percent;

17 6.2.6 Trinity, .3333 percent;

18 6.2.7 Shasta, .4667 percent;

19 6.2.8 San Juan, .0667 percent;

20 6.2.9 El Dorado, .2000 percent;

21 6.2.10 Carmichael, .0667 percent."

22
23 6. MEMORANDUM OF UNDERSTANDING--PROJECT OWNERSHIP

24 6.1 The following is substituted for and replaces
25 Section 7.1 of the MOU:

26 "7.1 Except as otherwise agreed by the
27 Participants in accordance with
28 Section 7.6 of the MOU, the Project,

1 other than the upgraded Western
2 facilities, shall be owned in the
3 following proportions prior to
4 January 1, 2005, and also thereafter,
5 if CDWR does not exercise its right in
6 accordance with Section 8.1 of the MOU:

7 7.1.1 The Agency, 45.1110 percent;

8 7.1.2 The Investor-Owned Utilities,
9 43.5026 percent;

10 7.1.3 The Southern California Public
11 Agencies, 8.0530 percent;

12 7.1.4 South San Joaquin, 2.2000
13 percent;

14 7.1.5 Trinity, .3333 percent;

15 7.1.6 Shasta, .4667 percent;

16 7.1.7 San Juan, .0667 percent;

17 7.1.8 El Dorado, .2000 percent;

18 7.1.9 Carmichael, .0667 percent."

19 6.2 The following is substituted for and replaces
20 Section 7.2 of the MOU:

21 "7.2 If CDWR exercises its rights to
22 purchase Project transfer capability in
23 accordance with Section 8.1 of the MOU,
24 then except as otherwise agreed by the
25 Participants in accordance with
26 Section 7.6 of the MOU, the Project,
27 other than the upgraded Western
28 facilities, shall be owned in the

1 following proportions after January 1,
2 2005:

3 7.2.1 The Agency, 42.1002 percent;

4 7.2.2 The Investor-Owned Utilities,
5 40.6052 percent;

6 7.2.3 The Southern California Public
7 Agencies, 7.5168 percent;

8 7.2.4 The CDWR, 6.4444 percent;

9 7.2.5 South San Joaquin, 2.2000
10 percent;

11 7.2.6 Trinity, .3333 percent;

12 7.2.7 Shasta, .4667 percent;

13 7.2.8 San Juan, .0667 percent;

14 7.2.9 El Dorado, .2000 percent;

15 7.2.10 Carmichael, .0667 percent."

16 6.3 The following is substituted for and replaces
17 Section 7.3 of the MOU:

18 "7.3 Unless prohibited by law or unless
19 otherwise agreed in accordance with
20 Section 7.6 of the MOU, the portion of
21 the upgraded Western facilities not
22 owned by Western shall be owned in the
23 following proportions prior to
24 January 1, 2005:

25 7.3.1 The Agency, 45.1110 percent,
26 (approximately 677/1500);
27
28

- 1 7.3.2 The Investor-Owned Utilities,
2 43.5026 percent,
3 (approximately 652/1500);
4 7.3.3 The Southern California Public
5 Agencies, 8.0530 percent
6 (approximately 121/1500);
7 7.3.4 South San Joaquin, 2.200
8 percent (approximately
9 33/1500);
10 7.3.5 Trinity, .3333 percent
11 (approximately 5/1500);
12 7.3.6 Shasta, .4667 percent
13 (approximately 7/1500);
14 7.3.7 San Juan, .0667 percent
15 (approximately 1/1500);
16 7.3.8 El Dorado, .2000 percent
17 (approximately 3/1500);
18 7.3.9 Carmichael, .0667 percent
19 (approximately 1/1500).

20 The Participants recognize that the
21 facilities to be owned by Western shall
22 be determined in accordance with the
23 provisions of the MOU, approved by the
24 Secretary of Energy by the MOD, which
25 MOD was clarified by the May 4, 1985
26 letter from the Acting General Counsel
27 of the Department of Energy. Further
28 negotiations of the particulars of the

ownership of facilities by Western will
be required as engineering of the
Project progresses."

6.4 The following is substituted for and replaces
Section 7.4 of the MOU:

"7.4 Unless prohibited by law or unless
otherwise agreed in accordance with
Section 7.6 of the MOU, the portion of
the upgraded Western facilities not
owned by Western shall be owned in the
following proportions on and after
January 1, 2005, if CDWR exercises its
rights to purchase in accordance with
Section 8.1 of the MOU:

7.4.1 The Agency, 42.1002 percent
(approximately 631/1500);

7.4.2 The Investor-Owned Utilities,
40.6052 percent (approximately
609/1500);

7.4.3 The Southern California Public
Agencies, 7.5168 percent
(approximately 113/1500);

7.4.4 The CDWR, 6.4444 percent
(approximately 97/1500);

7.4.5 South San Joaquin, 2.200
percent (approximately
33/1500);

- 1 7.4.6 Trinity, .3333 percent
2 (approximately 5/1500);
3 7.4.7 Shasta, .4667 percent
4 (approximately 7/1500);
5 7.4.8 San Juan, .0667 percent
6 (approximately 1/1500);
7 7.4.9 El Dorado, .2000 percent
8 (approximately 3/1500);
9 7.4.10 Carmichael, .0667 percent
10 (approximately 1/1500).

11 The Participants recognize that the
12 facilities to be owned by Western shall
13 be determined in accordance with the
14 provisions of the MOU, approved by the
15 Secretary of Energy by the MOD, which
16 MOD was clarified by the May 4, 1985
17 letter from the Acting General Counsel
18 of the Department of Energy. Further
19 negotiation of the particulars of the
20 ownership of facilities by Western will
21 be required as engineering of the
22 Project progresses."

23
24 7. RIGHTS OF THE CALIFORNIA DEPARTMENT OF WATER RESOURCES

25 7.1 The following is substituted for and replaces
26 Section 8.1 of the MOU:

27 "8.1 Effective January 1, 2005, CDWR will
28 have a right to buy pro rata from all

1 Current Participants, except Western,
2 6.25 percent, as such percentage is
3 adjusted downward to accommodate the
4 allocation to Additional Participants,
5 of the Project as the Project exists as
6 of the date CDWR exercises its right.
7 Unless another price is mutually agreed
8 to by the selling Current Participant
9 and CDWR, CDWR shall pay each selling
10 Current Participant the original
11 construction cost (including the
12 original construction cost associated
13 with Western's entitlement), including
14 the interest it incurred during
15 construction, plus the original cost of
16 capital improvements and betterments
17 (including the original cost of capital
18 improvements and betterments associated
19 with Western's entitlement), including
20 interest it incurred during
21 construction, allocable to the
22 respective pro rata share of the
23 Project that the Current Participant
24 is selling to CDWR. Within one year
25 after the Project is energized, each
26 Current Participant shall provide CDWR
27 with a statement of the original
28 construction cost (including the

1 original construction cost associated
2 with Western's entitlement), including
3 the interest it incurred during
4 construction for its share of the
5 Project so that CDWR can determine the
6 cost it shall be obligated to pay such
7 Current Participant if it exercises its
8 rights under this Section 8.1. Within
9 one year after any capital improvements
10 or betterments are completed prior to
11 the date of exercise by CDWR, each
12 Current Participant shall provide CDWR
13 with a statement of construction costs
14 incurred for such capital improvements,
15 or betterments (including the original
16 construction cost of capital
17 improvements and betterments associated
18 with Western's entitlement) including
19 interest incurred during construction
20 with respect to its share, so that CDWR
21 can determine the cost it shall be
22 obligated to pay such Current
23 Participant if it exercises its rights
24 under this Section 8.1"

1 8. PROJECT DEVELOPMENT AGREEMENT--PROJECT OWNERSHIP,
2 ENTITLEMENT TO TRANSFER CAPABILITY OF THE PROJECT AND
3 PROJECT FINANCING RESPONSIBILITY

4 8.1 The following is substituted for and replaces
5 Appendix F of the PDA:

6 "Appendix F

7 Project Ownership and Entitlements

8 (Expressed in Percentages)

	Entitlement to	
	Transfer Capability of the Project ^{1/}	Ownership Interest ^{2/}
12 TANC	42.2916	45.1110
14 PGandE	20.3918	21.7513
15 SDG&E	2.8549	3.0452
16 SCE	17.5370	18.7061
18 Anaheim	3.0198	3.2212
19 Azusa	0.3020	0.3221
20 Banning	0.1510	0.1611
21 Colton	0.3020	0.3221
22 Riverside	2.0762	2.2146
23 Vernon	1.6987	1.8119
25 Western	6.2500	0.0000
26 South San Joaquin	2.0625	2.2000
27 Trinity	0.3125	0.3333
28 Shasta	0.4375	0.4667

San Juan	0.0625	0.0667
El Dorado	0.1875	0.2000
Carmichael	<u>0.0625</u>	<u>0.0667</u>
	100.0000	100.0000

1/ Between California-Oregon border area and Tesla Substation

2/ Excluding facilities owned by Western"

8.2 The following is substituted for and replaces
Section 5.1 of the PDA:

"5.1 Unless the following percentages are
otherwise modified in accordance with
Section 5.4 each Participant shall be
responsible for paying its share of the
costs of Project Development Work in
the following Cost Sharing Percentages:

TANC	45.1110
Anaheim	3.2212
Azusa	0.3221
Banning	0.1611
Colton	0.3221
Riverside	2.2146
Vernon	1.8119
PGandE	21.7513
SCE	18.7061
SDG&E	3.0452
Western	0.0000
South San Joaquin	2.2000

Trinity	0.3333
Shasta	0.4667
San Juan	0.0667
El Dorado	0.2000
Carmichael	<u>0.0667</u>
	100.0000"

9. CHANGES IN OWNERSHIP, PARTICIPATION SHARE, AND FINANCING RESPONSIBILITY

9.1 Sections 4, 5, 6, 7, and 8 of this MOU Annex shall whenever necessary be modified by restating percentages to conform to changes in Project Participation Share, Project Ownership and Project Financing Responsibility, as these terms are used in the MOU, in accordance with the provisions of the PDA or other agreements among the Participants which provide for such changes.

9.2 Each Participant may assign its rights and obligations in the Project in accordance with Section 17 of the PDA and any applicable provision of the Participation Agreement contemplated in Sections 2.4 and 11.4 of the PDA, including the layoff of Project transfer capability rights in accordance with Section 10.4 of the MOU.

10. REIMBURSEMENT OF CURRENT PARTICIPANTS

10.1 Not later than ten (10) days after the effective date of this MOU Annex, each Additional

Participant shall reimburse each Current Participant, except CDWR, for its share of all payments made and due and payable to the Project Manager by each Current Participant as of the effective date of this MOU Annex for Project Development Work in accordance with the Interim Cost Sharing Agreement and the Project Development Agreement plus interest in accordance with Section 10.3 below.

10.2 Each Additional Participant's share of such costs shall be that amount that each Additional Participant would have paid to the Project Manager for Project development work had that Additional Participant been an original signator to the MOU and paid all amounts due and payable under the Interim Cost Sharing Agreement and the Project Development Agreement, based upon its financing responsibility percentage.

10.3 The amount to be reimbursed by each Additional Participant to each Current Participant in accordance with this Section 10, shall include an interest charge assessed at an annual rate of interest, compounded monthly, equal to the lesser of (a) the applicable first of the month reference rate, or successor, of the Bank of America N.T. & S.A., San Francisco, California, corresponding to the period for which reimbursement is made; or (b) the maximum interest rate permitted by law. Such

1 interest shall be charged against the amount to be
2 reimbursed from the time the Current Participant
3 made its original payment to the time such
4 reimbursement is paid by the Additional
5 Participant.

6 10.4 No later than the effective date of this
7 Agreement, the Project Manager shall compute the
8 amount of funds to be reimbursed by each
9 Additional Participant in accordance with the
10 provisions of this Section 10 and shall provide
11 the results of this computation to each Current
12 Participant and each Additional Participant. The
13 Project Manager shall issue a cash call to the
14 Additional Participants on behalf of the Current
15 Participants to whom reimbursements are to be made
16 and shall collect and disburse those funds
17 collected in accordance with this Section 10. In
18 no case shall the Project Manager, acting in its
19 capacity as such, be responsible on behalf of an
20 Additional Participant for any reimbursement owed
21 to any Current Participant in accordance with this
22 Section 10.

23
24 11. CONSTRUCTIVE WITHDRAWAL

25 11.1 Should any Additional Participant fail to duly
26 sign this MOU Annex within ten (10) days after its
27 effective date, fail to reimburse Current
28 Participants in accordance with Section 10, or

1 fail to meet any condition imposed by Western in
2 its stated allocation criteria (50 Fed. Reg.
3 31912) within the period established by Western,
4 that Additional Participant shall be deemed to
5 have withdrawn from the Project and that
6 Additional Participant's Share, as defined in the
7 PDA, shall be revoked and placed in an allocation
8 pool for reallocation to the other Additional
9 Participants or the Current Participants (except
10 Western) in a manner consistent with Western's
11 stated criteria (50 Fed. Reg. 31912). Should any
12 portion of that additional Participant's
13 allocation not be reallocated to the other
14 Additional Participants, such unallocated portion
15 shall revert to the Current Participants and shall
16 be made available to each of them in a manner
17 consistent with Section 13 of the PDA or
18 appropriate provisions of the Participation
19 Agreement, whichever is applicable. Any right to
20 reimbursement for funds paid toward the
21 development and operation of the Project shall be
22 as defined in the PDA or Participation Agreement,
23 as applicable.

24 11.2 The following is substituted for and replaces
25 Section 13.4 of the PDA:

26 "13.4 If the amount of the withdrawing
27 Participant's Share voluntarily assumed
28 by the non-withdrawing Participants is

1 less than 100 percent of the
2 withdrawing Participant's Share, each
3 non-withdrawing Participant shall
4 assume its respective portion of the
5 balance of the withdrawing
6 Participant's Share, in an amount
7 proportionate to that which its Cost
8 Sharing Percentage bears to the total
9 Cost Sharing Percentages of
10 non-withdrawing Participants identified
11 in Section 5.1, provided that no
12 Participant shall be obligated in total
13 for more than 1.15 times its Cost
14 Sharing Percentage as of the effective
15 date of this Agreement. A Nonutility
16 Participant shall not be obligated to
17 assume any portion of the withdrawing
18 Participant's Share."

19 11.3 The following is added as a new Section 13.12 to
20 the PDA:

21 "13.12 If an Additional Participant withdraws
22 from the Project in accordance with
23 Section 13, or is found in default in
24 accordance with Section 20, then such
25 Additional Participant's allocation
26 shall be revoked and shall be made
27 available to the non-withdrawing
28

Participants (except Western) on a pro rata basis.

12. ASSIGNMENT

12. The following is substituted for and replaces Section 17.1 of the PDA:

"17.1 A Participant may assign or transfer any right or interest in this Agreement, in whole or in part, only after obtaining the written consent of the other Participants, which consent shall not be unreasonably withheld; provided that a Participant may withhold consent to any proposed assignment or transfer either (1) to an entity or association which is not CDWR, Western, or a public electric utility regulated under applicable state law or the Federal Power Act or exempted from such regulation by reason of being a public entity, or (2) to an entity or association which does not have public utility responsibilities with regard to serving electric power to customers. A Participant shall not withhold consent to any assignment or transfer between Participants allocated Project transfer capability by Western

as set forth in 50 Fed. Reg. 42769
(1985) solely because that entity is a
Nonutility Participant, provided that
such assignment or transfer concerns
part or all of the 3.125 percent of
Project transfer capability allocated
by Western and interests attendant
thereto, and no other interest in the
Project. Consent to a proposed
assignment to a joint powers agency
which is a Participant shall not be
withheld solely because that entity is
a joint powers agency. No Participant
shall bring, initiate or amend,
directly or indirectly including by
means of cross-complaint or other
affirmative allegation, an action or
proceeding before a court or an
administrative agency against another
Participant to contest the withholding
of consent by such Participant in
accordance with clauses (1) or (2) of
this Section 17.1 or the reasons
therefor or the validity of this
Section 17.1, other than a dispute
regarding the factual application of
such clauses. The withholding of
consent by a Participant in accordance

1 with clauses (1) or (2) of this
2 Section 17.1 shall not indicate
3 approval or disapproval by any other
4 Participant of such withholding."

5
6 13. OPINIONS OF COUNSEL

7 The following is substituted for and replaces Section 11.3
8 of the MOU:

9 "11.3 Contracts among the Participants shall
10 then be negotiated to implement these
11 principles. As a condition of
12 execution of any contracts implementing
13 this MOU each Participant shall furnish
14 the other Participants with a written
15 Opinion of Counsel in which it is
16 represented that said Participant has
17 the authority to enter into such
18 contracts and to be bound by the terms
19 and conditions thereof. In the case of
20 the Agency, each major member agency
21 thereof shall furnish such Opinion of
22 Counsel. In the case of an Additional
23 Participant that is a joint powers
24 agency, the individual member agencies
25 of that joint powers agency shall not
26 be obligated to provide such Opinions
27 of Counsel but the joint powers agency
28

1 itself shall provide such Opinion of
2 Counsel of behalf of the agency."
3

4 14. SIGNATURE CLAUSE

5 The signatories of this MOU Annex represent that they have
6 been appropriately authorized to enter into this MOU Annex on
7 behalf of the entity for whom they sign. This MOU Annex may be
8 executed in counterparts.
9

10 CITY OF ANAHEIM

11 By: 

12 Name: _____

Don R. Roth

13 Title: _____

Mayor

14 Date: _____

March 18, 1986

15 ATTEST:

16 
17 City Clerk, City of Anaheim

18 CITY OF AZUSA

19 By: _____

20 Name: _____

21 Title: _____

22 Date: _____

23 CITY OF BANNING

24 By: _____

25 Name: _____

26 Title: _____

27 Date: _____
28

1 itself shall provide such Opinion of
2 Counsel of behalf of the agency."
3

4 14. SIGNATURE CLAUSE

5 The signatories of this MOU Annex represent that they have
6 been appropriately authorized to enter into this MOU Annex on
7 behalf of the entity for whom they sign. This MOU Annex may be
8 executed in counterparts.
9

10 CITY OF ANAHEIM

11 By: _____

12 Name: _____

13 Title: _____

14 Date: _____

15
16 CITY OF AZUSA

17 By: Eugene F. Moses

18 Name: Eugene F. Moses

19 Title: Mayor

20 Date: February 18, 1986

21
22 CITY OF BANNING

23 By: _____

24 Name: _____

25 Title: _____

26 Date: _____
27
28

1 itself shall provide such Opinion of
2 Counsel of behalf of the agency."

3
4 14. SIGNATURE CLAUSE

5 The signatories of this MOU Annex represent that they have
6 been appropriately authorized to enter into this MOU Annex on
7 behalf of the entity for whom they sign. This MOU Annex may be
8 executed in counterparts.

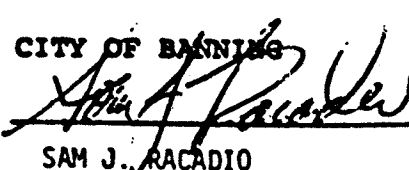
9
10 CITY OF ANAHEIM

11 By: _____
12 Name: _____
13 Title: _____
14 Date: _____

15
16 CITY OF AZUSA

17 By: _____
18 Name: _____
19 Title: _____
20 Date: _____

21
22 CITY OF BAKING

23 By:  _____
24 Name: SAM J. RACADIO
25 Title: City Manager
26 Date: March 12, 1986
27
28

1
2 Approved as to legal form
and sufficiency: *gll*

3
4 *[Signature]*
5 Chief Counsel, Department
of Water Resources

CALIFORNIA DEPARTMENT OF
WATER RESOURCES *

By: *H. H. Eastin*
Name: H. H. EASTIN
Title: Deputy Director
Date: APR 2 1966

CARMICHAEL WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

CITY OF COLTON

By: _____
Name: _____
Title: _____
Date: _____

EL DORADO HILLS COMMUNITY

SERVICES DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

26 * Since CDWR is not a party to the Project Development
27 Agreement (PDA), CDWR's approval of this MOU Annex is not
28 intended to express either approval or disapproval of
Sections 8, 11.2, 11.3 and 12, which do nothing other than
amend certain sections of the PDA.

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**CALIFORNIA DEPARTMENT OF
WATER RESOURCES**

By: _____
Name: _____
Title: _____
Date: _____

CARMICHAEL WATER DISTRICT

By: *Roger L. McGinley*
Name: Roger L. McGinley
Title: Secretary/General Manager
Date: February 21, 1986

CITY OF COLTON

By: _____
Name: _____
Title: _____
Date: _____

**EL DORADO HILLS COMMUNITY
SERVICES DISTRICT**

By: _____
Name: _____
Title: _____
Date: _____

CALIFORNIA DEPARTMENT OF
WATER RESOURCES

By: _____

Name: _____

Title: _____

Date: _____

CARMICHAEL WATER DISTRICT

By: _____

Name: _____

Title: _____

Date: _____

CITY OF COLTON

By: Albert Huntoon

Name: *Albert Huntoon*

Title: Mayor

Date: _____

EL DORADO HILLS COMMUNITY
SERVICES DISTRICT

By: _____

Name: _____

Title: _____

Date: _____

CALIFORNIA DEPARTMENT OF
WATER RESOURCES

By: _____
Name: _____
Title: _____
Date: _____

CARMICHAEL WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

CITY OF COLTON


By: _____
Name: _____
Title: _____
Date: _____

EL DORADO HILLS COMMUNITY
SERVICES DISTRICT

By: Bonnie Byram
Name: Bonnie Byram
Title: President of Board
Date: 2/13/86

As a party to the MOU but which is not a party to any other Project Agreement, the Los Angeles Department of Water and Power (LADWP) regards Sections 8, 9.2, 10, 11 and 12 of the MOU Annex, as having no involvement with LADWP. LADWP further considers Section 3 of the MOU Annex as being the only section of this Agreement which involves LADWP's interests in the amended MOU, which interests are limited to those expressed in Section 4.1 and 4.4 of the MOU.

APPROVED AS TO FORM AND LEGALITY
JAMES K. HAHN, CITY ATTORNEY

APR 19 1986
BY 
RALPH E. WESSON
Assistant City Attorney

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES

by

BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES

By

and


Secretary

AUTHORIZED BY RES. 56 259
APR 24 1986

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LOS ANGELES DEPARTMENT OF
WATER AND POWER

By: _____
Name: _____
Title: _____
Date: _____

PACIFIC GAS AND ELECTRIC
COMPANY

By: *George A. Manentis*
Name: *George A. Manentis*
Title: *Executive Vice President*
Date: *Feb. and Elec. Res. Develop.*
Date: *February 21, 1986*

CITY OF RIVERSIDE

By: _____
Name: _____
Title: _____
Date: _____

SAN DIEGO GAS & ELECTRIC
COMPANY

By: _____
Name: _____
Title: _____
Date: _____

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LOS ANGELES DEPARTMENT OF
WATER AND POWER

By: _____
Name: _____
Title: _____
Date: _____

PACIFIC GAS AND ELECTRIC
COMPANY

By: _____
Name: _____
Title: _____
Date: _____

CITY OF RIVERSIDE

By: AB Brown
Name: AB BROWN
Title: MAYOR
Date: March 18, 1986

APPROVED AS TO FORM

John W. Wells
CITY ATTORNEY

SAN DIEGO GAS & ELECTRIC
COMPANY

By: _____
Name: _____
Title: _____
Date: _____

LOS ANGELES DEPARTMENT OF
WATER AND POWER

By: _____
Name: _____
Title: _____
Date: _____

PACIFIC GAS AND ELECTRIC
COMPANY

By: _____
Name: _____
Title: _____
Date: _____

CITY OF RIVERSIDE

By: _____
Name: _____
Title: _____
Date: _____

SAN DIEGO GAS & ELECTRIC
COMPANY

By: J. C. Holcombe
Name: J. C. Holcombe
Title: Vice President, Fuel & Power Contracts
Date: February 21, 1986

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SAN JUAN SUBURBAN WATER

DISTRICT

By: Jack B. Hansen
Name: Jack B. Hansen
Title: General Manager & Secretary
Date: Feb 11, 1986

SHASTA DAM AREA PUBLIC UTILITY

DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SOUTHERN CALIFORNIA EDISON

By: _____
Name: _____
Title: _____
Date: _____

SOUTHERN SAN JOAQUIN VALLEY

POWER AUTHORITY

By: _____
Name: _____
Title: _____
Date: _____

SAN JUAN SUBURBAN WATER
DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SHASTA DAM AREA PUBLIC UTILITY
DISTRICT

By: Larry J. Fari
President, Board of Directors
By: Georgia Haddon
Clerk, Board of Directors

Date: February 19, 1986

SOUTHERN CALIFORNIA EDISON

By: _____
Name: _____
Title: _____
Date: _____

SOUTHERN SAN JOAQUIN VALLEY
POWER AUTHORITY

By: _____
Name: _____
Title: _____
Date: _____

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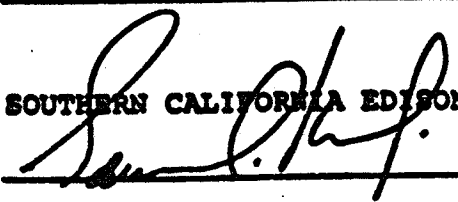
**SAN JUAN SUBURBAN WATER
DISTRICT**

By: _____
Name: _____
Title: _____
Date: _____

**SHASTA DAM AREA PUBLIC UTILITY
DISTRICT**

By: _____
Name: _____
Title: _____
Date: _____

SOUTHERN CALIFORNIA EDISON

By: 
Name: Edward A. Myers, Jr.
Title: Vice President
Date: March 7, 1986

APPROVED AS TO FORM:
JOHN R. BURY
General Counsel
Michael D. Davis
March 5, 1986

**SOUTHERN SAN JOAQUIN VALLEY
POWER AUTHORITY**

By: _____
Name: _____
Title: _____
Date: _____

SAN JUAN SUBURBAN WATER

DISTRICT

By: _____

Name: _____

Title: _____

Date: _____

SHASTA DAM AREA PUBLIC UTILITY

DISTRICT

By: _____

Name: _____

Title: _____

Date: _____

SOUTHERN CALIFORNIA EDISON

By: _____

Name: _____

Title: _____

Date: _____

SOUTHERN SAN JOAQUIN VALLEY

POWER AUTHORITY

By: *Kenneth M. Wegis*

Name: KENNETH M. WEGIS

Title: CHAIRMAN OF THE BOARD

Date: FEBRUARY 19, 1986

TRANSMISSION AGENCY OF

NORTHERN CALIFORNIA

By: _____

Name: _____

Title: _____

Date: _____

TRINITY COUNTY PUBLIC UTILITY
DISTRICT

By: _____

Name: _____

Title: _____

Date: _____

CITY OF VERNON

By: _____

Name: _____

Title: _____

Date: _____

WESTERN AREA POWER
ADMINISTRATION

By: _____

Name: _____

Title: _____

Date: _____

TRANSMISSION AGENCY OF
NORTHERN CALIFORNIA

By: _____
Name: _____
Title: _____
Date: _____

TRINITY COUNTY PUBLIC UTILITY
DISTRICT

By: _____
Name: Richard L. Martin
Title: PRESIDENT OF THE BOARD
Date: 2/21/86

CITY OF VERNON

By: _____
Name: _____
Title: _____
Date: _____

WESTERN AREA POWER
ADMINISTRATION

By: _____
Name: _____
Title: _____
Date: _____

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TRANSMISSION AGENCY OF
NORTHERN CALIFORNIA

By: _____
Name: _____
Title: _____
Date: _____

TRINITY COUNTY PUBLIC UTILITY
DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

CITY OF VERNON

By: *Leonis C. Malburg*
Name: Leonis C. Malburg
Title: Mayor

APPROVED AS TO FORM
BY *D.B. Brearley*
DAVID B. BREARLEY
CITY ATTORNEY

Date: March 4, 1986
ATTEST: *[Signature]*
City Clerk

WESTERN AREA POWER
ADMINISTRATIONS

By: _____
Name: _____
Title: _____
Date: _____

TRANSMISSION AGENCY OF
NORTHERN CALIFORNIA

By: _____
Name: _____
Title: _____
Date: _____

TRINITY COUNTY PUBLIC UTILITY
DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

CITY OF VERNON

By: _____
Name: _____
Title: _____
Date: _____

WESTERN AREA POWER

ADMINISTRATION

By: David G. Coleman
Name: David G. Coleman
Title: Area Manager
Date: February 21, 1986

APPENDIX C

Participation Percentages

	(A) Participation Percentage	(B) Participation Percentage	(C) Minimum MW Share	(D) Maximum MW Share	(E) Desired MW Amount
	1/	2/	3/	4/	5/
City of Alameda	1.713	1.333	11.59	20.00	12.00
City of Healdsburg	0.357	0.267	2.42	4.00	4.00
City of Lodi	1.686	1.890	11.41	28.35	22.82
City of Lompoc	0.408	0.184	2.76	2.76	2.76
Modesto Irrigation District	19.200	21.120	129.92	316.77	255.00
City of Palo Alto	4.254	4.000	28.79	60.00	28.79
Plumas-Sierra Rural Electric Cooperative	0.358	0.161	2.42	2.42	2.42
City of Redding	6.400	8.281	43.31	124.22	100.00
City of Roseville	1.455	2.295	9.85	34.43	27.64
Sacramento Municipal Utility District	30.600	27.133	207.05	407.00	407.00
City of Santa Clara	20.200	20.703	136.69	310.55	250.00
Turlock Irrigation District	12.900	12.422	87.29	186.33	150.00
City of Ukiah	0.462	0.211	3.17	3.17	3.17
	100.000	100.000	676.67	1500.00	1265.60

- 1/ If TANC's megawatt entitlement to Transfer Capability in the Project is less than sixty-five percent (65%) of the Transfer Capability allocated to the non-Federal Participants, then these percentages shall govern.
- 2/ If TANC's megawatt entitlement to Transfer Capability in the Project is sixty-five percent (65%) or greater of the Transfer Capability allocated to the non-Federal Participants, then these percentages shall govern.
- 3/ The numbers in this column represent the minimum amount of Transfer Capability for which a Member is obligated pursuant to this Agreement based on a 1600 MW Project and will be adjusted on a pro rata basis to reflect the actual Rated Project Transfer Capability as that term is defined in the Intertie Agreements.
- 4/ The numbers in this column represent the maximum amount of Transfer Capability to which a Member is obligated pursuant to this Agreement based on a 1600 MW Project and will be adjusted on a pro rata basis to reflect the actual Rated Project Transfer Capability as that term is defined in the Intertie Agreements.
- 5/ The numbers in this column represent the amounts of Transfer Capability which Members desire at this level of TANC's entitlement to Transfer Capability as a Participant under the Intertie Agreements in the event that the investor-owned utilities are no longer Participants in the Project.

**APPENDIX D
PRESCHEDULING OF TRANSMISSION USE
AND CURTAILMENT NOTIFICATION PROCEDURES**

1. OPERATING AGENT INTERFACES:

1.1 Through the TANC Coordinator, TANC shall notify the Operating Agent relative to the amounts of Transfer Capability that TANC will be using, as required by the Intertie Agreements.

1.2 It is anticipated that the Operating Agent will notify TANC through the TANC Coordinator when a curtailment affecting Transfer Capability is scheduled or has occurred, as provided in the Intertie Agreements.

1.3 It is anticipated that the Operating Agent will notify Members or their designated agents directly of a real-time curtailment of Transfer Capability. Each Member or its designated agent will be responsible for communicating and coordinating real-time power schedule curtailments and all changes in schedules due to curtailments occurring in real-time pursuant to its separate agreements with other entities.

2. TANC TRANSFER CAPABILITY PRESCHEDULING PROCEDURES

Transfer Capability will be prescheduled over four different time frames - long term (6 years), next operating year, next operating month, and current operating month.

2.1 Long Term and Next Operating Year

2.1.1 Each year, each Member shall prepare the

1 following estimated data pertaining to its
2 use of Transfer Capability for each month of
3 the following six-year period:

4 2.1.1.1 Member's Participation
5 Percentage;

6 2.1.1.2 Contracted Transfer Capability
7 layoffs to Members and
8 Participants;

9 2.1.1.3 Contracted Transfer Capability
10 layoffs from TANC and
11 Participants;

12 2.1.1.4 Amount of Transfer Capability
13 available for sale; and

14 2.1.1.5 Amounts of additional Transfer
15 Capability desired.

16 2.1.2 This data will be submitted to the TANC
17 Coordinator by July 31 of each year.

18 2.1.3 The TANC Coordinator shall determine the
19 amounts of Transfer Capability owned by
20 other Participants that is unneeded by each
21 of those Participants (if available) and
22 that could be used by TANC.

23 2.1.4 The data will be compiled by the TANC
24 Coordinator into a document that defines the
25 projected use of the Project by each Member,
26 and on an aggregate TANC basis, for each
27 month of the six year period. The document
28 will also quantify instances where a Member

1 may want additional Transfer Capability,
2 where a Member may have Transfer Capability
3 that it is not planning to use, and where
4 other Participants have unneeded Transfer
5 Capability.

6 2.1.5 The TANC Coordinator shall send this
7 document to the Members by August 31 so that
8 they will have data on projected aggregate
9 usage and can identify potential periods
10 when Transfer Capability can be bought and
11 sold among the Members.

12 2.1.6 Those Members who have made buy/sell
13 arrangements for Transfer Capability will
14 notify the TANC Coordinator of these
15 arrangements and of their effective time
16 frames by September 30.

17 2.1.7 This new data will be utilized by the TANC
18 Coordinator to prepare a revised document
19 that defines the projected use of the
20 Project by Member, and on an aggregate TANC
21 basis, for each month of the six year
22 period. The document will also quantify any
23 amounts of unneeded Transfer Capability and
24 instances where additional Transfer
25 Capability could be utilized by TANC or by a
26 Member.

27 2.1.8 If the revised document demonstrates
28 unneeded capacity or needs for additional

1 Transfer Capability, it will be resubmitted
2 to the Members by October 31 so that they
3 are aware of potential additional buy/sell
4 opportunities.

5 2.1.9 Those Members making additional buy/sell
6 arrangements will notify the TANC
7 Coordinator of those additional arrangements
8 and their effective time frames by
9 November 30.

10 2.1.10 This updated data will be utilized by the
11 TANC Coordinator to prepare a revised
12 document that defines the projected use of
13 the Project by each Member and on an
14 aggregate TANC basis for each month of the
15 six year period. The document will also
16 quantify any amounts of unneeded Transfer
17 Capability that was not required by TANC and
18 instances where additional Transfer
19 Capability could be utilized by TANC.

20 2.2 Next Operating Month

21 2.2.1 Each month, each Member or its designated
22 agent shall prepare the following estimated
23 hourly data for each of three day-types
24 (weekday, Saturday, and Sunday/ Holiday)
25 pertaining to its use of the Project for the
26 next operating month:

27 2.2.1.1 Member's Participation
28 Percentage;

1 2.2.1.2 Contracted Transfer Capability
2 layoffs to Members and
3 Participants;
4 2.2.1.3 Contracted Transfer Capability
5 layoffs from Members and other
6 Participants;
7 2.2.1.4 Amount of Transfer Capability
8 available for sale; and
9 2.2.1.5 Amounts of additional Transfer
10 Capability desired.
11 2.2.2 This data will be submitted to the TANC
12 Coordinator by the 20th of the month
13 preceding the operating month in question.
14 2.2.3 The TANC Coordinator shall determine the
15 amounts of Transfer Capability owned by
16 other Participants that is unneeded by those
17 Participants (if available) and which could
18 be used by TANC.
19 2.2.4 The data will be compiled by the TANC
20 Coordinator into a document that defines the
21 projected use of the Project by Member, and
22 on an aggregate TANC basis, for each hour of
23 the three day-types specified above. To the
24 extent possible the document will also
25 identify potential layoff opportunities
26 among the Members or between TANC and other
27 Participants.
28 2.2.5 This document will be sent to the TANC

Members by the 21st of the month preceding the operating month so that they will have data on projected aggregate usage and can identify potential periods when Transfer Capability can be bought and sold among the Members and between TANC and other Participants.

2.2.6 Those Members who have made buy/sell arrangements for Transfer Capability will notify the TANC Coordinator of these arrangements and of their effective time frames by the 24th of the month preceding the operating month.

2.2.7 This new data will be utilized by the TANC Coordinator to prepare a revised document that defines the projected use of the Project by Member, and on an aggregate TANC basis, for each hour of the three day-types specified above and such data will be made available to the Members. The document will also quantify any amounts of unneeded Transfer Capability and periods of time when additional Transfer Capability could be utilized by TANC or a Member.

2.2.8 If any of the foregoing dates falls on a weekend or holiday, the submittal shall be made by the work day immediately preceding the weekend or holiday.

1 2.3 Current Operating Month

2 2.3.1 Data for the current operating month will be
3 contained on a dedicated computerized
4 "bulletin board" that will specify Member
5 use, and to the extent available Participant
6 use, of Transfer Capability on an hourly
7 basis for the month. This data will be the
8 same as that prepared for the "Next
9 Operating Month" as described in Section 2.2
10 above.

11 2.3.2 Using the data on the bulletin board the
12 Members or their designated agents may make
13 Transfer Capability buy/sell arrangements
14 among themselves and will notify the TANC
15 Coordinator of any changes required to the
16 bulletin board as soon as practicable after
17 making such change.

18
19 3. TANC CURTAILMENT NOTIFICATION PROCEDURES

20 3.1 Curtailment Notification Procedure (Prescheduled) -

21 The TANC Coordinator shall promptly notify the Members
22 upon receipt of notice from the Operating Agent of any
23 scheduled curtailment of Transfer Capability. The
24 TANC Coordinator may advise the Members of adjustments
25 to Transfer Capability that could be made to minimize
26 the effects of the curtailment on the Members. The
27 steps in this procedure are as follows:

28 3.1.1 The Operating Agent notifies the TANC

Coordinator that a curtailment will occur and the magnitude of the curtailment.

3.1.2 The TANC Coordinator will update the bulletin board to reflect each Member's remaining share of Transfer Capability.

3.1.3 The TANC Coordinator will notify each Member or its designated agent of its share of the curtailment and may suggest certain actions (e.g., trading Transfer Capability) that could be used to minimize curtailment impacts.

3.1.4 In each event of a prescheduled curtailment where TANC still has sufficient Transfer Capability for the aggregate power schedules of the Members, by mutual agreement a Member may utilize another Member's unused share of Transfer Capability in order to avoid a curtailment.

3.2 Curtailment Notification Procedure (Real-Time) - The Members anticipate that (i) the Operating Agent will notify the TANC Coordinator of real-time curtailments to Transfer Capability, (ii) the TANC Coordinator will communicate and coordinate real-time curtailments to Transfer Capability with the Members; and (iii) the Operating Agent will also notify Members or their designated agents directly of a real-time curtailment of Transfer Capability. Each Member or its designated agent will be responsible for communicating and

1 coordinating real-time power schedule curtailments and
2 all changes in schedules due to curtailments occurring
3 in real-time pursuant to its separate agreements with
4 other entities. The TANC Coordinator shall maintain
5 the bulletin board, based on information received from
6 the Operating Agent on a real-time basis. It is the
7 intent of the Members to share the use of Transfer
8 Capability in order to avoid curtailments to the
9 extent possible without jeopardizing service to their
10 own customers.

11 3.2.1 Using the data on the bulletin board, the
12 Members may make Transfer Capability
13 buy/sell arrangements among themselves and
14 will make appropriate arrangements relative
15 to changes in the amount of reserved
16 transmission capacity and the corresponding
17 power schedule changes pursuant to their
18 separate agreements with other entities.

19 3.2.2 The Members will notify the TANC Coordinator
20 of any changes in the amount of Transfer
21 Capability they have reserved. The TANC
22 Coordinator will update the data on the
23 bulletin board.

APPENDIX E
BILLING ADDRESSES OF THE PARTIES

- 1
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- 4 City of Alameda
Bureau of Electricity
- 5 2000 Grand Street
Alameda, CA 94501
- 6
- 7 City of Healdsburg
c/o Northern California Power Agency
- 8 180 Cirby Way
Roseville, CA 95678
- 9 City of Lodi
Call Box 3006
- 10 Lodi, CA 95241-1910
- 11 City of Lompoc
100 Civic Center Plaza
- 12 Lompoc, CA 93438
- 13 Modesto Irrigation District
P. O. Box 4060
- 14 Modesto, CA 95352
- 15 City of Palo Alto
P. O. Box 10250
- 16 Palo Alto, CA 94303
- 17 City of Redding
760 Parkview Avenue
- 18 Redding, CA 96001-3396
- 19 City of Roseville
2090 Hilltop Circle
- 20 Roseville, CA 95678
- 21 Sacramento Municipal Utility District
P. O. Box 15830
- 22 Sacramento, CA 95852-1830
- 23 City of Santa Clara
1500 Warburton Avenue
- 24 Santa Clara, CA 95050
- 25 Turlock Irrigation District
P. O. Box 949
- 26 Turlock, CA 95381
- 27 City of Ukiah
300 Seminary Avenue
- 28 Ukiah, CA 95482

1 Plumas-Sierra Rural Electric Cooperative
P. O. Box 2000
2 Highway 70, 3 Miles West of Portola
Portola, CA 96122-2000
3
4 Transmission Agency of Northern California
P. O. Box 661030
Sacramento, CA 95866
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